



**State of Tennessee**  
**Health Services and Development Agency**

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**Date: August 9, 2015**

**To: HSDA Members**

**From: Melanie M. Hill, Executive Director**

**Re: CONSENT CALENDAR JUSTIFICATION**  
**CN1508-033 – Saint Thomas Medical Partners**

As permitted by Statute and further explained by Agency Rule on the last page of this memo, I have placed this application on the consent calendar based upon my determination that the application appears to meet the established criteria for granting a certificate of need. If Agency Members determine that the criteria have been met, a member may move to approve the application by adopting the criteria set forth in this justification or develop another motion for approval that addresses each of the three criteria required for approval of a certificate of need. If you find one or more of the criteria have not been met, then a motion to deny is in order.

At the time the application entered the review cycle on September 1, 2015, it was not opposed. If the application is opposed prior to being heard, it will move to the bottom of the regular October agenda and the applicant will make a full presentation.

**Summary—**

Saint Thomas Medical Partners (STP) is seeking approval to initiate MRI services through the acquisition of the MRI service owned and operated by the Howell-Allen clinic, formerly known as Neurological Surgeons prior to 2004, a physician medical group based in Nashville. STP, a large multi-specialty group practice with locations throughout Middle Tennessee and Southern Kentucky, is wholly owned by Saint Thomas Network and is used to employ cardiologists, neurologists, primary care physicians, and surgeons. A diagram of the ownership is on page 12 of the original application. Ascension Health is the ultimate owner of the organization.

The existing MRI equipment (GE Horizon short bore 1.5 Tesla) will be acquired as part of the acquisition of the physician practice. The equipment has been in use for about 10 years and the remaining useful life is estimated to be about 5 years.

Please refer to the application for the specifics of the project.

**Executive Director Justification -**

**I recommend approval of certificate of need application CN1508-033 for Saint Thomas Medical Partners to initiate MRI services through the acquisition of the existing MRI service owned and operated by the Howell-Allen clinic, which was formerly known as Neurological Surgeons prior to 2004 based upon my belief the following general criteria for a certificate of need have been met.**

**Need-** The MRI in this project is part of an existing physician practice that has been highly utilized and is expected to continue to be highly utilized due to the Saint Thomas Network. This is simply a change of ownership of an existing MRI.

**Economic Feasibility-** The project will be funded from the cash reserves of Saint Thomas Health.

**Contribution to the Orderly Development of Health Care-** This is simply a change of ownership of an existing well-utilized MRI. There is a potential for expanded participation due to Saint Thomas Network's health insurance contracts with major payor sources, including TennCare MCO plans. Since a new MRI is not being added, there is no duplication of services.

**Statutory Citation -TCA 68-11-1608. Review of applications -- Report**

(d) The executive director may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

**Rules of the Health Services and Development Agency - 0720-10-.05 CONSENT CALENDAR**

- (1) Each monthly meeting's agenda will be available for both a consent calendar and a regular calendar.
- (2) In order to be placed on the consent calendar, the application must not be opposed by anyone having legal standing to oppose the application, and the executive director must determine that the application appears to meet the established criteria for granting a certificate of need. Public notice of all applications intended to be placed on the consent calendar will be given.
- (3) As to all applications which are placed on the consent calendar, the reviewing agency shall file its

official report with The Agency within thirty (30) days of the beginning of the applicable review cycle.

(4) If opposition by anyone having legal standing to oppose the application is stated in writing prior to the application being formally considered by The Agency, it will be taken off the consent calendar and placed on the next regular agenda. Any member of The Agency may state opposition to the application being heard on the consent calendar, and if reasonable grounds for such opposition are given, the application will be removed from the consent calendar and placed on the next regular agenda.

(a) For purposes of this rule, the “next regular agenda” means the next regular calendar to be considered at the same monthly meeting.

(5) Any application which remains on the consent calendar will be individually considered and voted upon by The Agency.





**HEALTH SERVICES AND DEVELOPMENT AGENCY  
OCTOBER 28, 2015  
APPLICATION SUMMARY**

NAME OF PROJECT: Saint Thomas Medical Partners

PROJECT NUMBER: CN1508-033

ADDRESS: 2214 Elliston Place  
Nashville (Davidson County), TN 37203

LEGAL OWNER: Saint Thomas Medical Partners  
102 Woodmont Boulevard, Suite 700  
Nashville (Davidson County), TN 37205

OPERATING ENTITY: NA

CONTACT PERSON: Michael D. Brent, Attorney

DATE FILED: August 14, 2015

PROJECT COST: \$2,213,165.44

FINANCING: Cash Reserves of Saint Thomas Health

PURPOSE FOR FILING: Initiation of MRI services

DESCRIPTION:

Saint Thomas Medical Partners d/b/a Saint Thomas Medical Partners-Neurosurgery Imaging Center (STP), a multi-specialty physician group formed as a Tennessee non-profit corporation in April 1993 and a wholly owned subsidiary of Saint Thomas Health Network ultimately owned by Ascension Health, is seeking approval to initiate magnetic resonance imaging (MRI) services through the acquisition of the MRI service owned and operated by the Howell-Allen Clinic, formerly known as Neurological Surgeons prior to 2004, a physician medical group based in Nashville whose members consist of neurosurgeons and neurologists. This is, in effect, a change in ownership and operational management of the existing MRI service approved in Neurological Surgeons, P.C., CN9902-013AM for the initiation of MRI services at 2018 Murphy Avenue, Nashville. The original Certificate of Need was subsequently amended at the April 23, 2003 Agency meeting to reflect a change in location to 2214 Elliston Place in Nashville, a distance of approximately 400 yards from the site approved in CN9902-013AM. Other than

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the transfer of operation of the MRI service from the specialty physician group to Saint Thomas Medical Partners, the project will not change the location of the existing MRI unit, the service area or add any new medical equipment or services requiring CON approval. This application has been placed under **CONSENT CALENDAR REVIEW** in accordance with TCA §68-11-1608(d) and Agency Rule 0720-10-.05

## CRITERIA AND STANDARDS REVIEW

### MAGNETIC RESONANCE IMAGING SERVICES

#### 1. Utilization Standards for non-Specialty MRI Units.

- a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

*The proposed Saint Thomas Medical Partners MRI service will be a new service for the applicant as a result of its acquisition of an existing, well utilized ancillary MRI service approved in CN9902-013AM of a medical practice based in Nashville. The historical utilization of the medical group's ancillary MRI service was 4,305 procedures in CY2012, 4,891 in CY2013 and 5,012 in CY2014, an increase of approximately 16.4% during the 3 year period.*

*If approved, the projected utilization under new operation by the applicant is estimated at 4,104 procedures in Year 1. The projected utilization of BMG's new MRI service will substantially exceed the standard for a new service in both the first and second year of the service.*

*It appears that the applicant will meet this criterion.*

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

*As a multi-specialty medical group with over 375 physicians and offices throughout Middle Tennessee and Southern Kentucky, the applicant's primary service area (PSA) is expected to remain unchanged from the service area of the existing MRI service operated by the Howell-Allen Clinic in Nashville. The PSA consists of 7 Tennessee counties, including Cheatham, Davidson, Robertson, Rutherford, Sumner, Williamson and Wilson Counties. The applicant believes the PSA is reasonable based on utilization of the current MRI service by residents of the PSA who are registered patients of the medical group as shown in the table on page 7 of Supplemental 1.*

*It appears that this criterion has been met.*

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

*The project does not seek approval to add a new MRI unit to the service area. The proposed change focuses on the initiation of MRI services as a result of the applicant's acquisition of the Howell Allen Clinic and its MRI service originally approved in CN9902-013AM. The project involves no change in location of the service, new equipment or other new services.*

*The applicant states that this proposal is the most economic and efficient means to continue MRI services of an existing MRI service being operated by a physician practice group with little or no disruption to continuity of patient care and without adding new MRI equipment to the service area.*

*It appears that the applicant meets this criterion.*

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

*The subject of the application is the acquisition of an existing MRI unit approved in Neurological Surgeons, P.C., CN9902-013AM that will not increase the inventory of MRI units in the primary service area. Note: for informational purposes only HSDA calculated CY 2014 MRI utilization at approximately 2,446 procedures per fixed unit or 84.9% of the 2,880 standard when excluding the 2 mobile units in the PSA.*

*The criteria do not apply to the project.*

***Note to Agency members: Criteria 5 and 6 are not included here since they are not applicable as they relate to specialty MRI units.***

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

- a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

*The applicant documented certification of the existing 1.5 Tesla GE Horizon MRI unit by the Food and Drug Administration.*

*It appears that this criterion has been met.*

- b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

*The project does not involve construction or related changes to the physical location of the existing MRI service located in approximately 550 square feet (SF) of space in an existing 3-story 27,192 total SF medical office building at 2014 Elliston Place in Nashville. The applicant confirmed that the MRI unit*

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acquired as a result of CN9902-013AM is being operated in a physical environment that conforms to federal manufacturer standards.

*It appears that this criterion has been met.*

- c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

*As noted, the applicant's proposed MRI service will remain at its present location which is located within 1 mile of the Saint Thomas Hospital-Midtown campus in Nashville. Per Item 7 of Supplemental 1, the applicant clarified that patient emergencies will be managed in accordance with agreements between Saint Thomas Medical Partners and an affiliated radiology group and hospital (Saint Thomas Hospital-Midtown).*

*It appears that this criterion has been met.*

- d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

*The applicant plans to follow established protocols of Saint Thomas Medical Partners and will coordinate follow-up questions or concerns with referring providers, as appropriate.*

*It appears that this criterion has been met.*

- e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

*The applicant stated that it is prepared to meet the staffing recommendations & standards of the American College of Radiology.*

*It appears that this criterion has been met.*

- f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable

accreditation authority for MRI within two years following operation of the proposed MRI Unit.

*The applicant states it will continue to maintain active accreditation by this organization.*

*It appears that this criterion has been met.*

- g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

*As noted in the application, the MRI service is located within 1 mile from the hospital campus of Saint Thomas Hospital-Midtown, an affiliate of the applicant's parent company. The applicant confirmed in Supplemental 1 that it will enter into an emergency transfer agreement with the hospital.*

*It appears that this criterion has been met.*

- 8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

*The applicant indicates data will continue to be submitted to the HSDA Equipment Registry within the expected time frame.*

*It appears that this criterion has been met.*

- 9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

- a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration; or

*All or portions of the 7-county service area are located in Medically Underserved Areas designated by the Health Resources and Services Administration.*

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*The applicant meets this criterion.*

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

*The criterion does not apply to this application.*

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

*The applicant states that Saint Thomas Medical Partners is a participating provider in Medicare and Medicaid and is contracted with TennCare MCOs available in the 10-county service area. A list of Saint Thomas Health's existing MCO contracts is provided in Attachment A.13 in the application.*

*It appears that the applicant meets this criterion.*

- d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

*It appears that this criterion does not apply to the project.*

### **Staff Summary**

*The following information is a summary of the original application and all supplemental responses. Any staff comments or notes, if applicable, will be in bold italics.*

Saint Thomas Medical Partners (STP), a multi-specialty medical group owned by the Saint Thomas Network, seeks approval to initiate and operate the existing MRI service of the Howell Allen Clinic, formerly known as Neurological Surgeons, PC. The service was approved in CN9902-013AM and is located at 2214 Elliston Place, Suite 200 in Nashville, TN. The applicant plans to purchase the existing 1.5 Tesla GE short bore MRI unit as part of its acquisition of the Howell Allen Clinic medical practice (HAC). As such, the MRI service will continue to be used by the neurology patients of the medical practice.

Ownership of the existing MRI equipment will transfer between the parties in accordance with the fully executed 8/14/2105 Purchase Option Agreement provided in the attachments to the August 25, 2015 supplemental response. The

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project does not involve a change in location or the addition of any new medical equipment or services.

As a private physician practice, Saint Thomas Medical Partner's proposed MRI service does not require licensure by the Tennessee Department of Health. As such, the applicant anticipates that MRI services can be implemented within approximately 30-60 days of approval of the application in October, 2015. The hours of operation will be 7:00 AM until 4:30PM Monday through Friday with later hours, including weekends, provided as required.

### **Overview**

The existing MRI service is an ancillary service of the Howell Allen Clinic, a medical practice founded in 1983 that consists of 14 neurosurgeons and neurologists and has a current patient caseload of approximately 20,000 registered patients. The medical group has several physician offices in Davidson County. Its MRI service is located in approximately 522 square feet of dedicated space on the 2<sup>nd</sup> Floor of an existing 3-story building located at 2214 Elliston Place in Nashville, Tennessee.

Formerly known as Neurological Surgeons, P.C. before February 2004, the medical group received a Certificate of Need (CN9902-013AE) from the former Health Facilities Commission at its June 1999 meeting to initiate MRI services at 2018 Murphy Avenue in Nashville, Tennessee. The Certificate of Need was subsequently amended in April 2003 to relocate the medical group's MRI service to 2214 Elliston Place in Nashville, a distance of approximately 400 yards.

The 1.5 Tesla GE Horizon unit went into operation in late 1999/early 2000 and was registered with the HSDA Equipment Registry on August 1, 2002 in accordance with Agency Statute. The Howell Allen Clinic's MRI service performed 2,992 total MRI procedures in its first year of operation (CY 2001) amounting to approximately 136% of the 2,200 procedures per unit MRI utilization standard in effect at that time. Utilization reached an average of approximately 4,736 MRI procedures from 2012-2014 or approximately 164% of the current 2,880 MRI procedure standard. *Note: For additional information about Howell Allen Clinic and its MRI service, please see pages 14-15 of the application and Item 10 of the 8/25/15 supplemental response.*

### **Ownership**

The applicant is a Tennessee non-profit corporation originally formed and registered as Baptist Healthcare Group in April 1993. As noted in Attachment A.3 of the application, its corporate charter was amended in February 2015 changing the name to Saint Thomas Medical Partners. Related highlights pertaining to the ownership of the applicant and Saint Thomas Health are as follows:

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- The multi-specialty physician medical group has more than 375 physician members and is a wholly owned subsidiary of Saint Thomas Network, which is ultimately wholly owned through successive entities by Ascension Health.
- Saint Thomas Medical Partners multi-specialty physicians practice from offices located across middle Tennessee and Southern Kentucky, West Tennessee, North Mississippi and East Arkansas.
- The applicant's parent company has ownership interests in other hospitals and healthcare services in Tennessee. It holds several outstanding and unimplemented approved Certificates of Need that are highlighted at the end of this project summary.
- With respect to MRI only, hospitals affiliated through ownership by the applicant's parent company operate a total of 10 MRI units in Tennessee, including units located on hospital campuses in Canon (1), Davidson (3), DeKalb (1), Hickman (1), Rutherford (2), Warren (1) and White Counties (1).
- An organization chart is provided on page 12 of the application.

### **Facility and MRI Equipment Information**

Key highlights of the applicant's proposed MRI service are noted below.

- The proposed project is one component of the applicant's overall acquisition of The Howell Allen Clinic. The applicant alleges that the acquisition will extend the off-site capabilities of Saint Thomas Medical Partners and serve the community(s) where its physicians practice.
- If approved, the applicant will continue MRI services for patients of The Howell Allen Clinic.
- The applicant plans to purchase the existing MRI unit for approximately \$359,960. Documentation in the form of a fully executed Purchase Option Agreement was provided in Supplemental 1.
- The location of the proposed MRI service in a 522 square foot area on the 2<sup>nd</sup> floor of an existing building at 2014 Elliston Place in Nashville will not change. The MRI service also shares approximately 2,612 of common area space that is used for reception and patient waiting.
- No new construction or renovation to the space dedicated to the medical group's MRI service is required.
- A contingency cost of \$20,000 is included in the total project cost for any minor clean -up or cosmetic needs that might be necessary.
- The existing MRI service approved in CN9902-013AM utilizes a 1.5 Tesla short bore MRI unit manufactured by General Electric. As noted, HSDA Equipment Registry records reflect that the existing MRI service is fully registered and has averaged approximately 4,736 procedures per year from 2012-2014.
- Per clarification provided in Items 4, 7 and 15 of Supplemental 1, the applicant plans to enter into a Professional Services Agreement with a Saint

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Thomas Health affiliated radiology group for the provision of imaging interpretation services and physician supervision.

- The contracted radiologists affiliated with Saint Thomas Health will bill all payor sources directly for their professional (imaging interpretation) fees.
- Emergency services are within 1 mile at the closest Saint Thomas Health affiliated hospital (Saint Thomas Hospital-Midtown).

### **Project Need**

The applicant states that the certificate of need for continuation of the MRI service approved in CN9902-013AM under new ownership and management by Saint Thomas Medical Partners is needed for the following reasons:

- To meet HSDA requirements that address replacing previously approved and implemented certificates of need due to a change in ownership.
- To continue MRI services as an effective imaging modality for neurology patients of The Howell Allen Clinic who reside in a 10 county Middle Tennessee primary service area.
- To contribute to Saint Thomas Health model of service to communities where its physician members practice.
- To continue access by patients enrolled in Medicare and Medicaid at rates similar to the historical utilization of the medical group's MRI service.

### **Service Area Demographics**

Saint Thomas Medical Partners proposed 7-county primary service area (PSA) includes Cheatham, Davidson, Robertson, Rutherford, Sumner, Williamson and Wilson Counties. Residents of Dickson, Maury and Montgomery comprise the secondary service area (SSA). As clarified in Item 8 of Supplemental 1, residents of the PSA and SSA accounted for 2,456 or approximately 60% of 4,104 total MRI procedures performed by The Howell Allen Clinic in 2014. Highlights of the applicant's proposed service area are provided as follows:

- According to the Tennessee Department of Health, the total population of the PSA is estimated at 1,606,876 residents in calendar year (CY) 2015 increasing by approximately 75% to 1,727,077 residents in CY 2019.
- The overall Tennessee statewide population is projected to grow by 3.7% from 2015 to 2019.
- Residents age 65 and older account for approximately 11.9% of the total PSA population compared to 15.2% statewide.
- The age 65 and older resident population is expected to increase by approximately 16% compared to 12% statewide from CY2015 - CY2019.
- The number of residents enrolled in TennCare is approximately 269,440 or 16.8% of the total PSA population compared to 18.1% statewide.

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### **Applicant's Historical and Projected Utilization**

Projected utilization will be similar to the historical volumes of the existing medical group's MRI service in light of Saint Thomas Medical Partners plans to continue to serve neurological patients of the practice as the new owner and manager of the MRI service. Highlights that apply to the projected utilization of the MRI service are as follows:

- No changes in practice site, equipment or service area.
- No significant change in scope of clinical applications from referrals by applicant's physicians such as scans of the brain, chest, pelvis and extremities.
- Continued participation in Medicare and potential expanded participation under Saint Thomas Network's health insurance contracts with major payor sources, including TennCare MCO plans.
- Continuity of care through use of Saint Thomas Health Network provider support services such as integrated electronic medical record systems, scheduling and patient accounts management system support.

The historical and projected MRI utilization is shown in the table below.

**Table 1- Applicant's Historical and Projected Utilization**

| 2012  | 2013  | 2014  | % Change<br>'11-'14 | 2015<br>(Est.) | Year 1 | Year 2 |
|-------|-------|-------|---------------------|----------------|--------|--------|
| 4,305 | 4,891 | 5,012 | 16.4%               | 4,380          | 4,104  | 4,104  |

*Sources: HSDA Equipment Registry, Projected Data Chart, CN1503-010*

The inventory and 3 year utilization trend of existing MRI providers and their use by residents of the entire 7-county primary service area (PSA) was clarified per HSDA request in Item 9 of Supplemental 2 using data from the HSDA Equipment Registry. As a project involving no increase in the number of MRI units located in the primary service area (PSA), a condensed version of the MRI inventory and utilization in the PSA is shown in the table below.

## Utilization of Existing MRI Providers in Applicant's PSA, 2012-2014

| County                    | Current units (fixed) | Current Units (mobile) | 2012           | 2013           | 2014           | % Change '12-'14 |
|---------------------------|-----------------------|------------------------|----------------|----------------|----------------|------------------|
| Davidson                  | 54                    | 0                      | 130,843        | 130,611        | 134,733        | 3.0%             |
| Cheatham                  | 0                     | 1                      | 375            | 303            | 298            | -20.5%           |
| Robertson                 | 1                     | 0                      | 2,780          | 3,232          | 3,407          | 22.6%            |
| Rutherford                | 9                     | 0                      | 20,118         | 22,863         | 25,300         | 25.8%            |
| Sumner                    | 5                     | 1                      | 9,748          | 10,259         | 10,512         | 7.8%             |
| Williamson                | 5                     | 0                      | 14,373         | 14,549         | 14,008         | -2.6%            |
| Wilson                    | 5                     | 0                      | 7,881          | 7,772          | 8,073          | 2.4%             |
| <b>Total</b>              | <b>79</b>             | <b>2</b>               | <b>186,118</b> | <b>189,589</b> | <b>195,971</b> | <b>5.29%</b>     |
| Fixed MRI Unit Scans only | 79                    | NA                     | 183,789        | 187,049        | 193,255        | 5.15%            |
| Scans per Fixed unit      | 79                    | NA                     | 2,326          | 2,367          | 2,446          | 5.15%            |
| As a % of 2,880 standard  |                       |                        | 80.8%          | 82.2%          | 84.9%          | NA               |

Source: HSDA Equipment Registry

The table above reflects the following:

- Total provider utilization increased slightly by approximately 5.3% from 186,118 total procedures in 2012 to 195,971 total procedures in 2014.
- In CY 2014, the combined utilization of the 79 fixed MRI units averaged approximately 2,446 procedures per unit or 84.9% of the 2,880 fixed MRI unit standard.
- MRI providers in Rutherford County had the largest increase in MRI utilization during the period.

### Project Cost

The total project cost is \$2,213,165.44. As clarified in Item 11 of Supplemental 1, the Project Costs Chart includes the cost of the facility lease payments the applicant will be responsible for as part of its acquisition of the Howell Allen Clinic. This amount is higher than the estimated fair market value of the rentable space in accordance with Agency Rule. Major costs are as follows:

- The actual facility lease cost is \$1,243,947 or 56% of the total project cost.
- The total equipment cost for the purchase and maintenance agreement of the 1.5 Tesla GE Horizon MRI unit is \$934,700 or 42.2% of the total project cost.
- As noted, the \$20,000 contingency cost is included for minor repairs, signage or painting that may be needed for the MRI space.
- For other details on revised project cost of the project, see the Project Cost Chart on page 37 of the application.

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### **Projected Data Chart**

The revised Projected Data Chart provided in Supplemental 2 reflects \$7,134,968 in total gross operating revenue on 4,104 MRI procedures in Year 1 (average of \$1,739 per MRI procedure). The Projected Data Chart reflects the following:

- Gross operating revenue increases by 2.9% from Year 1 to \$7,349,017 on 4,104 procedures in Year 2.
- Net operating income (NOI) is favorable in the first year of the project at 16.7% of gross operating revenue.
- The applicant did not allocate deductions for charity services or bad debt in the chart.
- Contractual adjustments account for the highest deductions from revenue averaging approximately 66.5% of gross revenue per year. It appears that the applicant's 34% combined Medicare/TennCare payor mix may help explain why contractual adjustments are higher for this service.
- A revised Projected Data Chart was necessary due to changes from the original chart in the application pertaining to Salaries and Wages and Other Expenses. Additionally, the annual facility lease payments needed to be accounted for as an operating cost of the project.

### **Charges**

The projected average gross charge amounts to approximately \$1,739 in Year 1, an increase of approximately 6.1% from the charge for the most recent 12-month period (2014). Professional fees for imaging interpretation services will be billed separately by the contract radiologist physician practice. Highlights of the applicant's charges are as follows:

- The fee schedule of the applicant's MRI charges with breakout by CPT classification compared to current Medicare allowable charges is shown on page 40 of the application.
- After deductions, the projected average net charge is \$582.23/MRI scan.
- According to CY 2014 HSDA records, the \$1,739 average gross charge is between the \$1,632.60 1<sup>st</sup> Quartile charge and the \$2,229.43 median charge.

### **Payor Mix**

- Saint Thomas Medical Partners participates in Medicare, TennCare MCO plans operating in the PSA and major commercial and other health insurance plans.
- The applicant's combined payor mix in Year 1 is shown in the table below.

**MRI Government Payor Source, Year 1**

| <b>Payor Source</b> | <b>Gross Revenue</b> | <b>As a % of Total</b> |
|---------------------|----------------------|------------------------|
| Medicare            | \$2,342,410          | 32.7%                  |
| TennCare            | \$114,159            | 1.6%                   |
| Managed Care        | \$700,654            | 10.0%                  |
| Commercial          | \$3,922,091          | 54.9%                  |
| Self-Pay            | \$6,421              | 0.1%                   |
| Other               | \$49,231             | 0.7%                   |
| Total Gross Revenue | \$7,134,968          | 100%                   |

**Financing**

As clarified in Item 11 of Supplemental 1, the applicant expects little or no actual cash outlay for start-up costs of the project. A letter dated August 25, 2015 from Lisa Davis, Chief Financial Officer, Saint Thomas Health, was provided with Supplemental 1 identifying the availability of cash reserves to fund the applicant's acquisition of the existing physician practice MRI service. Additional highlights are noted below.

- The applicant will assume the facility lease for the use of the Elliston Place facility.
- The MRI equipment is currently owned by The Howell Allen Clinic. The applicant provided a fully executed Purchase Option Agreement in Supplemental 1 that identifies the terms for its acquisition of the MRI unit.
- Review of the Balance Sheet for Saint Thomas Health revealed total current assets of \$221,419,000 including cash and cash equivalents of \$19,242,000 and total current liabilities of \$147,352,000 for the period ending June 30, 2014. As a result, the Current Ratio was approximately 1.5 to 1.0 for the period.

*Note to Agency Members: current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.*

**Staffing**

There are no changes planned for existing staffing of the proposed MRI service.

- Time allocated to the MRI service for a staff MRI technicians amounts to approximately 3.0 full time equivalent.
- Administrative staff of the physician practice will be utilized to assist with scheduling, billing and collections activities pertaining to the MRI service.

**Saint Thomas Medical Partners**

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**Licensure/Accreditation**

As a private medical group practice, the applicant is not licensed by Tennessee Department of Health. The applicant plans to continue accreditation by the American College of Radiology. The current accreditation award expires April 17, 2017.

*Corporate documentation, site control information, a vendor quote documenting the maintenance service agreement cost and a copy of the FDA approval of the MRI unit are on file at the Agency office and will be available at the Agency meeting.*

Should the Agency vote to approve this project, the CON would expire in two years.

**CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:**

There are no other Letters of Intent, denied or pending applications, or outstanding Certificates of Need for this applicant.

*Note: Saint Thomas Medical Partners is a wholly owned subsidiary of Saint Thomas Health of Nashville Tennessee (STH). The applicant's parent company has financial interests in this project. STH has no other Letters of Intent or pending applications.*

**Outstanding Certificates of Need**

**Saint Thomas Mid-Town Hospital, CN1401-001A**, has an outstanding Certificate of Need which will expire on June 1, 2017. It was approved at the April 23, 2014 Agency meeting for the renovation of surgical suites, patient care areas, and support space for the realignment and consolidation of total joint replacement services at Saint Thomas Midtown Hospital (formerly known as Baptist Hospital) located at 2000 Church Street in Nashville, TN. **The estimated project cost is \$25,832,609.** *Project Status Update: Based upon an email from a representative of the applicant dated October 12, 2015, the project is 90% done and operational. All of the ORs and surgery support functions are complete and being utilized by patients. The remaining work focuses on the refurbishing of existing patient rooms, which includes painting and floor re-finishing.*

**Saint Thomas West Hospital f/k/a Saint Thomas Hospital, CN1110-037AM**, has an outstanding Certificate of Need which will expire on March 1, 2017. The project was approved at the January 25, 2012 Agency meeting for construction of a three phase hospital construction project, including the renovation of 89,134 square feet of existing hospital space and the construction of a six level 135,537 sq. ft. patient tower to be adjoined to the hospital located at 4220 Harding Road, Nashville, TN. The services and areas affected include critical care, operating rooms, patient

**Saint Thomas Medical Partners**

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registration, patient admission and testing, surgery waiting, surgery pre/post-op, emergency department, chest pain clinic, cardiac short stay, PACU, cath lab holding and support space. Major medical equipment included in the project will include one additional GE Discovery CT750 HD 128-slice CT scanner. No additional services or licensed beds are being requested in the project. **Note: Modification of the project was approved at the June 25, 2014 Agency. The total estimated cost of the project has been reduced by approximately \$15 million as a result of the elimination of 4 ORs and changes in the construction/renovation of 3 patient floors, shelled space & related infrastructure.** The revised estimated project cost is **\$95,780,000.** *Project Status update: The project is approximately 50% completed. The largest part of the project (Surgical Services Addition) has steel erection ongoing and will be topped out in the month of October. Interior Renovations that are ongoing include work in the new PACU, Cath Holding, and Operating Rooms. Recently completed phases include the Cath & Imaging Offices.*

**Baptist Plaza Surgicare, CN1307-029AM, has an outstanding Certificate of Need which will expire on December 1, 2015. It was approved at the October 23, 2013 Agency meeting for the relocation and replacement of the existing ASTC from 2011 Church Street Medical Plaza I Lower Level, Nashville (Davidson County) to the northeast corner of the intersection of Church Street and 20<sup>th</sup> Avenue North Nashville (Davidson County). The facility will be constructed in approximately 28,500 SF of rentable space in a new medical office building and will contain nine (9) operating rooms and one (1) procedure room. Note: Modification of the project was approved at the July 23, 2014 Agency meeting. The total estimated project cost has been reduced by approximately \$10 million. The ASTC will remain in its current location at Medical Plaza 1 on the hospital campus of Saint Thomas-Midtown and relocate from the basement to a new 3<sup>rd</sup> floor addition with slightly more space. The modification is a significant change to the project's original plan to relocate to a new building constructed on the northeast corner of Church Street and 20<sup>th</sup> Avenue North near the hospital campus. The revised estimated project cost is \$19,095,948.00. Project Status Update: A request for an 18 month extension is scheduled to be heard on the General Counsel's Report at the October 28, 2015 Agency meeting.**

**PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.**

PJG;  
10/01/2015

**Saint Thomas Medical Partners  
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OCTOBER 28, 2015  
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# LETTER OF INTENT



**State of Tennessee**  
**Health Services and Development Agency**

Andrew Jackson Building, 9<sup>th</sup> Floor  
 502 Deaderick Street  
 Nashville, TN 37243

[www.tn.gov/hsda](http://www.tn.gov/hsda)

Phone: 615-741-2364


Fax: 615-741-9884

## LETTER OF INTENT

The Publication of Intent is to be published in *Tennessean*, which is a newspaper of general circulation in Davidson County, Tennessee, on or before August 10, 2015, for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that Saint Thomas Medical Partners (a Tennessee nonprofit corporation wholly owned by Saint Thomas Network, which is a Tennessee nonprofit corporation wholly owned by Saint Thomas Health, a Tennessee nonprofit corporation), intends to file an application for a Certificate of Need for the acquisition of an MRI and initiation of MRI services, to be owned and managed by the applicant. The MRI service is currently provided in a physician practice located at 2214 Elliston Place, Suite 200, in Nashville, Tennessee, 37203. The existing equipment, a GE Horizon short bore MRI with magnet strength of 1.5 Tesla, will be purchased as part of the acquisition of the physician practice and the MRI will continue to be used for the patients of the practice. The estimated project cost is \$2,213,165.

The anticipated filing date of the application is on or before August 14, 2015. The contact person for this project is Michael D. Brent, Esq., who may be reached at Bradley Arant Boult Cummings LLP, 1600 Division Street, Suite 700, Nashville, Tennessee 37203. Mr. Brent's telephone number is (615) 252-2361 and his e-mail address is [mbrent@babbc.com](mailto:mbrent@babbc.com).

  
 (Signature)

  
 (Date)

[mbrent@babbc.com](mailto:mbrent@babbc.com)  
 (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency  
 Andrew Jackson Building, 9<sup>th</sup> Floor  
 502 Deaderick Street  
 Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

**COPY**

**St Thomas Partners**  
**(MRI)**

**CN1508-033**



Michael D. Brent  
Direct: 615.252.2361  
Fax: 615.252.6361  
mbrent@babbc.com

August 14, 2015

Ms. Melanie M. Hill  
Tennessee Health Services & Development Agency  
Andrew Jackson Building, 9th Floor  
502 Deaderick Street  
Nashville, Tennessee 37243

Dear Melanie:

Enclosed you will find an original, plus two copies, of a CON Application by Saint Thomas Medical Partners, an affiliate of the Saint Thomas Network, related to the acquisition of the physician practice known as the "Howell Allen Clinic," and the MRI operated as a part of that practice. As we have previously discussed, given the nature of this application, and the fact this MRI has been in operation over a decade by these physicians, we request that you give consideration to placing this application on the "Consent Calendar."

Should you have any questions or need anything further, please do not hesitate to contact me.

Very truly yours,

BRADLEY ARANT BOULT CUMMINGS LLP

A handwritten signature in black ink, appearing to read 'Michael D. Brent', written in a cursive style.

Michael D. Brent

MDB/cae

**SAINT THOMAS MEDICAL PARTNERS**  
**CERTIFICATE OF NEED APPLICATION**  
**ACQUISITION OF MRI AND INITIATION OF MRI SERVICES**  
**August 2015**

|  |   |  |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
|--|---|--|--------------------------|------------------------|-----|-------------------------------|--|----------------|-----|------------------------|-----|------------------------|-----|------------------|-----|---------------------------|-----|------------------------------|-----|---------------------------------|---|--------------------|-----|
| <b>1.</b>  | <b><u>Name of Facility, Agency, or Institution</u></b>            |  |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Saint Thomas Medical Partners d/b/a Saint Thomas Medical Partners – Neurosurgery - Imaging Center</u><br>Name   |   |  |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>2214 Elliston Place, Suite 200</u><br>Street or Route   |   | <u>Davidson</u><br>County                |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Nashville</u><br>City   | <u>TN</u><br>State  | <u>37203</u><br>Zip Code                 |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <b>2.</b>  | <b><u>Contact Person Available for Responses to Questions</u></b> |  |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Michael D. Brent</u><br>Name  |   | <u>Attorney</u><br>Title                 |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Bradley Arant Boulton Cummings LLP</u><br>Company Name  |   | <u>mbrent@babco.com</u><br>Email Address |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>1600 Division Street, Suite 700</u><br>Street or Route  | <u>Nashville</u><br>City  | <u>TN</u><br>State                       | <u>37203</u><br>Zip Code |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Attorney</u><br>Association with Owner  | <u>615-252-2361</u><br>Phone Number                               | <u>615-252-6361</u><br>Fax Number        |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <b>3.</b>  | <b><u>Owner of the Facility, Agency or Institution</u></b>        |  |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Saint Thomas Medical Partners</u><br>Name   |   | <u>615-284-7847</u><br>Phone Number      |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>102 Woodmont Boulevard, Suite 700</u><br>Street or Route  |   | <u>Davidson</u><br>County                |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <u>Nashville</u><br>City   | <u>TN</u><br>State  | <u>37205</u><br>Zip Code                 |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <b>4.</b>  | <b><u>Type of Ownership of Control (Check One)</u></b>            |  |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| <table style="width: 100%; border: none;"> <tr> <td style="width: 40%;">A. Sole Proprietorship</td> <td style="width: 10%; text-align: center;">___</td> <td style="width: 10%;">F. Government (State of TN or</td> <td style="width: 40%;"></td> </tr> <tr> <td>B. Partnership</td> <td style="text-align: center;">___</td> <td>Political Subdivision)</td> <td>___</td> </tr> <tr> <td>C. Limited Partnership</td> <td style="text-align: center;">___</td> <td>G. Joint Venture</td> <td>___</td> </tr> <tr> <td>D. Corporate (For Profit)</td> <td style="text-align: center;">___</td> <td>H. Limited Liability Company</td> <td>___</td> </tr> <tr> <td>E. Corporation (Not-for-Profit)</td> <td style="text-align: center;">X</td> <td>I. (Other) Specify</td> <td>___</td> </tr> </table> |   |  |                          | A. Sole Proprietorship | ___ | F. Government (State of TN or |  | B. Partnership | ___ | Political Subdivision) | ___ | C. Limited Partnership | ___ | G. Joint Venture | ___ | D. Corporate (For Profit) | ___ | H. Limited Liability Company | ___ | E. Corporation (Not-for-Profit) | X | I. (Other) Specify | ___ |
| A. Sole Proprietorship   | ___   | F. Government (State of TN or            |                          |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| B. Partnership   | ___   | Political Subdivision)                   | ___                      |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| C. Limited Partnership   | ___   | G. Joint Venture                         | ___                      |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| D. Corporate (For Profit)  | ___   | H. Limited Liability Company             | ___                      |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |
| E. Corporation (Not-for-Profit)  | X   | I. (Other) Specify                       | ___                      |                        |     |                               |  |                |     |                        |     |                        |     |                  |     |                           |     |                              |     |                                 |   |                    |     |

**PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND  
REFERENCE THE APPLICABLE ITEM NUMBER OF ALL ATTACHMENTS.**

**5. Name of Management/Operating Entity (If Applicable)**

Not Applicable

Name \_\_\_\_\_

Street or Route \_\_\_\_\_

County \_\_\_\_\_

City \_\_\_\_\_

State \_\_\_\_\_

Zip Code \_\_\_\_\_

**PUT ALL ATTACHMENT AT THE END OF THE APPLICATION IN ORDER AND  
REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS**

**6. Legal Interest in the Site of the Institution (Check One)**

A. Ownership \_\_\_\_\_

D. Option to Lease \_\_\_\_\_

B. Option to Purchase \_\_\_\_\_

E. Other (Specify) \_\_\_\_\_

C. Lease of 15\* Years X

\*Because the lease began in 2004, approximately 3.5 years of the original lease term remain. There is a renewal option for an additional 5 year term.

**7. Type of Institution (Check as appropriate—more than one response may apply)**

A. Hospital (Specify) \_\_\_\_\_

I. Nursing Home \_\_\_\_\_

B. Ambulatory Surgical Treatment  
Center (ASTC), Multi-Specialty \_\_\_\_\_

J. Outpatient Diagnostic Center \_\_\_\_\_

C. ASTC, Single Specialty \_\_\_\_\_

K. Recuperation Center \_\_\_\_\_

D. Home Health Agency \_\_\_\_\_

L. Rehabilitation Facility \_\_\_\_\_

E. Hospice \_\_\_\_\_

M. Residential Hospice \_\_\_\_\_

F. Mental Health Hospital \_\_\_\_\_

N. Non-Residential Methadone  
Facility \_\_\_\_\_

G. Mental Health Residential  
Treatment Facility \_\_\_\_\_

O. Birthing Center \_\_\_\_\_

H. Mental Retardation Institutional  
Habilitation Facility (ICF/MR) \_\_\_\_\_

P. Other Outpatient Facility  
(Specify) \_\_\_\_\_

Q. Other X Physician Practice (Neurology)

**8. Purpose of Review (Check as appropriate—more than one response may apply)**

- |                                   |          |                                 |       |
|-----------------------------------|----------|---------------------------------|-------|
| A. New Institution                | _____    | G. Change in Bed Complement     | _____ |
| B. Replacement/Existing Facility  | _____    | [Please note the type of change |       |
| C. Modification/Existing Facility | _____    | by underlining the appropriate  |       |
| D. Initiation of Health Care      | <u>X</u> | response: Increase, Decrease,   |       |
| Service as defined in TCA §       |          | Designation, Distribution,      |       |
| 68-11-1607(4)                     |          | Conversion, Relocation]         | _____ |
| (Specify) <u>MRI</u>              | <u>X</u> | H. Change of Location           | _____ |
| E. Discontinue of OB Services     | _____    | I. Other (Specify)              | _____ |
| F. Acquisition of Equipment       | <u>X</u> |                                 |       |

**9. Bed Complement Data**

**NOT APPLICABLE.**

**Please indicate current and proposed distribution and certification of facility beds.**

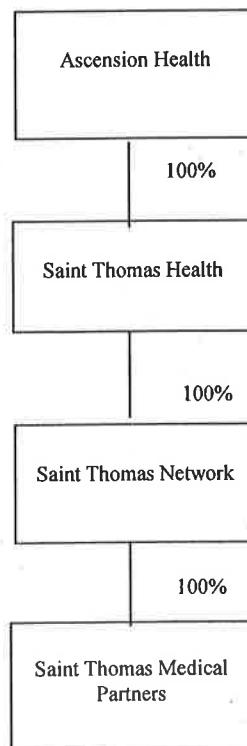
|  | Current Beds<br>Licensed *CON |       | Staffed<br>Beds | Beds<br>Proposed | TOTAL<br>Beds at<br>Completion |
|--|-------------------------------|-------|-----------------|------------------|--------------------------------|
| A. Medical                                     | _____                         | _____ | _____           | _____            | _____                          |
| B. Surgical                                    | _____                         | _____ | _____           | _____            | _____                          |
| C. Long-Term Care Hospital                     | _____                         | _____ | _____           | _____            | _____                          |
| D. Obstetrical                                 | _____                         | _____ | _____           | _____            | _____                          |
| E. ICU/CCU                                     | _____                         | _____ | _____           | _____            | _____                          |
| F. Neonatal                                    | _____                         | _____ | _____           | _____            | _____                          |
| G. Pediatric                                   | _____                         | _____ | _____           | _____            | _____                          |
| H. Adult Psychiatric                           | _____                         | _____ | _____           | _____            | _____                          |
| I. Geriatric Psychiatric                       | _____                         | _____ | _____           | _____            | _____                          |
| J. Child/Adolescent Psychiatric                | _____                         | _____ | _____           | _____            | _____                          |
| K. Rehabilitation                              | _____                         | _____ | _____           | _____            | _____                          |
| L. Nursing Facility (non-Medicaid Certified)   | _____                         | _____ | _____           | _____            | _____                          |
| M. Nursing Facility Level 1 (Medicaid only)    | _____                         | _____ | _____           | _____            | _____                          |
| N. Nursing Facility Level 2 (Medicare only)    | _____                         | _____ | _____           | _____            | _____                          |
| O. Nursing Facility Level 2                    | _____                         | _____ | _____           | _____            | _____                          |
| P. ICF/MR                                      | _____                         | _____ | _____           | _____            | _____                          |
| Q. Adult Chemical Dependency (Detox)           | _____                         | _____ | _____           | _____            | _____                          |
| R. Child and Adolescent Chemical<br>Dependency | _____                         | _____ | _____           | _____            | _____                          |
| S. Swing Beds                                  | _____                         | _____ | _____           | _____            | _____                          |
| T. Mental Health Residential Treatment         | _____                         | _____ | _____           | _____            | _____                          |
| U. Residential Hospice                         | _____                         | _____ | _____           | _____            | _____                          |



|   |                                  |
|---|----------------------------------|
| <b>TOTAL</b><br>*CON-Beds approved but not yet in service   |                                  |
| <b>10. Medicare Provider Number</b>   | <u>3704080</u>                   |
| <b>Certification Type</b>   | <u>Physician's Office/Clinic</u> |
| <b>11. Medicaid Provider Number</b>   | <u>3704080</u>                   |
| <b>Certification Type</b>   | <u>Physician's Office/Clinic</u> |
| <b>12. If this is a new facility, will certification be sought for Medicare and/or Medicaid?</b>  | <u>N/A</u>                       |
| <b>13. Identify all TennCare Managed Care Organizations/Behavioral Health Organization (MCOs/BHOs) operating in the proposed service area. Will this project involve the treatment of TennCare participants? <u>Yes</u>. If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract.</b> |                                  |
| <b>Discuss any out-of-network relationships in place with MCOs/BHOs in the area.</b>  |                                  |

**Response to Section A, Item 3:** Please See Attachment A.3.

**Response to Section A, Item 4:** Saint Thomas Medical Partners, a Tennessee nonprofit organization, is a multispecialty group practice with practice locations throughout Middle Tennessee and Southern Kentucky. Saint Thomas Medical Partners (the "Applicant") is wholly owned by Saint Thomas Network and is used to employ physicians, including all cardiologists, neurologists, primary care physicians and surgeons (but excluding hospitalists). It also operates a clinic pursuant to a professional services agreement with Nashville Medical Group. The ownership structure is as follows:



Ascension Health is a Catholic organization that is the largest not-for-profit health system in the United States. Hospital members of Saint Thomas Health include Saint Thomas West Hospital in Nashville, include Saint Thomas Midtown Hospital in Nashville, Saint Thomas Rutherford Hospital in Murfreesboro and Saint Thomas Hickman Hospital in Centerville.

**Response to Section A, Item 5:** Not applicable. The Applicant will manage the clinic.

**Response to Section A, Item 6:** Please see Attachment A.6. Please note that the lease will be assigned from Howell Allen Clinic, P.C. f/k/a Neurological Surgeons, P.C. to the Applicant.

**Response to Section A, Item 13:** The Applicant currently has contracts with various Managed Care Organizations. The Applicant is Medicare and Medicaid certified. Please see Attachment A.13 for a list of the Applicant's current contracts with Managed Care Organizations.

**NOTE:** **Section B** is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. **Section C** addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the contribution to the Orderly Development of Health Care. **Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.**

## **SECTION B: PROJECT DESCRIPTION**

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

- I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

### **RESPONSE:**

#### **Introduction and Background**

This project is for the acquisition of an MRI and initiation of MRI services by Saint Thomas Medical Partners, a wholly owned subsidiary of Saint Thomas Network. The Applicant owns and operates a multi-specialty medical practice with approximately 375 physicians and providers and practice locations throughout Middle Tennessee and Southern Kentucky. The service is currently provided in a physician practice located at 2214 Elliston Place, Suite 200 in Nashville, Tennessee, 37203. The existing equipment, a GE Horizon short bore MRI with magnet strength of 1.5 Tesla (the "MRI"), will be purchased as part of the acquisition of the physician practice and the MRI will continue to be used for the patients of the practice. The existing MRI was approved for the practice by Certificate of Need CN# 9902-013. The MRI will be wholly owned and operated by the Applicant with professionals and technical personnel provided by the Applicant. The purchase of the equipment will be from cash reserves. The total project cost is estimated at \$2,213,165.

#### **Need**

Davidson County residents account for more than 30% of the MRI units procedures performed in 2014. Davidson County, together with its surrounding counties, such as Rutherford, Sumner, Wilson, and Williamson Counties, account for more than 60% of the MRI procedures performed at the physician practice in 2014. The

consistent high utilization of the MRI throughout the past three years, as later discussed, indicates a continued need for the MRI.

The Applicant does not anticipate that it will hire staff in addition to the physicians and personnel it will employ pursuant to the physician practice acquisition to accommodate the proposed project.

**II.** Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

- A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

**RESPONSE:** The MRI identified in this project is part of an existing physician practice located in Nashville, Tennessee. The proposed project does not include construction or renovation since the equipment is being purchased as one component of a physician practice acquisition. The practice acquisition extends the off-site capabilities of the Applicant and represents a distributive model of service to the Davidson County community where Saint Thomas Medical Partners has a substantial physician practice presence.

The MRI occupies approximately 522 square feet of dedicated space in the leased premises and is also allocated 2,612 additional square feet of the leased "common area" (reception area, waiting rooms, circulation areas, etc.).

- B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

**RESPONSE:** Not applicable.

**Not Applicable.**

30

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. **Magnetic Resonance Imaging (MRI)**
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing Beds

**RESPONSE:** The 1.5 Tesla Short Bore unit identified in this application has proven effective for neurology patients of the current physician practice group for over a decade and remains an effective modality for such patients.

The equipment currently exists and is operating at levels above the 2,880 procedures per year standard necessary to justify an additional MRI. The equipment volume over the past several years is:

| Year  | Total Procedures |
|-------|------------------|
| 2011  | 6,052            |
| 2012  | 4,305            |
| 2013  | 4,891            |
| 2014  | 4,104            |
| 2015* | 2,190            |

\*Procedures performed through June 30, 2015

D. Describe the need to change location or replace an existing facility.

**RESPONSE:** Not applicable.

- E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed-site major medical equipment (not replacing existing equipment):

**a. Describe the new equipment, including:**

GE Horizon, 1.5 Tesla, Short Bore MRI

1. **Total cost; (As defined by Agency Rule).** \$934,700

Per the Agency Rule, the total cost of \$934,700 includes a service contract, a copy of which is provided in Attachment B.II.E.1

2. **Expected useful life.** The remaining useful life of the MRI is estimated to be at least five (5) years.

3. **List of clinical applications to be provided**

A list of CPT codes that constitute the majority of the scans performed is provided in Attachment B.II.E.3.

4. **Documentation of FDA approval.** Previously provided in the Agency approval of Certificate of Need CN#9902-013

**b. Provide current and proposed schedules of operations.**

**RESPONSE:** MRI services are normally offered from 7:00 AM until 4:30 PM Monday through Friday, with later hours (and weekends) provided as required.

2. For mobile major medical equipment:

- a. List all sites that will be served;
- b. Provide current and/or proposed schedule of operations;
- c. Provide the lease or contract cost.
- d. Provide the fair market value of the equipment; and
- e. List the owner for the equipment.

**RESPONSE:** Not Applicable.

3. Indicate applicant's legal interest in equipment (*i.e.*, purchase, lease, etc.) In the case of equipment purchase include a quote



and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

**RESPONSE:** The major medical equipment will be purchased. Fair market value of the equipment is estimated at \$359,960.

**III. A.** Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which **must include:**

1. Size of site (*in acres*);
2. Location of structure on the site;
3. Location of the proposed construction; and
4. Names of streets, roads or highway that cross or border the site.

***Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.***

**RESPONSE:** The building in which the MRI is located sits on .75 acres. Please also see Attachment B.III.(A).

**B.** Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

**RESPONSE:** The facility is centrally located in Nashville with access to major roads and interstates such as West End Avenue, Interstate 40, and Interstate 440. The site is located approximately one and a half miles from Interstate 440 and is easily accessible by traveling east on West End Avenue and then traveling north on Louise Avenue. Additionally, the site is located approximately one mile from Interstate 40 and is easily accessible from that direction by traveling west on West End Avenue and north on Louise Avenue.

Ninety-two percent (92%) of the workers in Davidson County drive to work; therefore, employees as well as patients and their families would have no difficulty reaching the facility.

(Source: [http://www.city-data.com/county/Davidson\\_County-TN.html](http://www.city-data.com/county/Davidson_County-TN.html)).

**IV.** Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper.

**NOTE: DO NOT SUBMIT BLUEPRINTS.** Simple line drawings should be submitted and need not be drawn to scale.

**RESPONSE:** Please see Attachment B.IV.

**V.** For a Home Health Agency or Hospice, identify:

1. Existing service area by County;
2. Proposed service area by County;
3. A parent or primary service provider;
4. Existing branches; and
5. Proposed branches.

**RESPONSE:** Not Applicable.

**SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED**

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)."

## QUESTIONS

### NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.
  - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

### Magnetic Resonance Imaging

#### *Utilization Standards for non-Specialty MRI Units.*

*a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.*

**RESPONSE:** The MRI to be acquired exists, is currently in use in the Service Area, and consistently performs more than 2,880 procedures per year, so the requisite demand exists for this MRI in the service area.

*b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.*

**RESPONSE:** Not Applicable.

*c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.*

**RESPONSE:** Not Applicable. The Applicant meets and exceeds the standard number of procedures.

*d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location.*

***However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.***

**RESPONSE:** Not Applicable.

***e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with another medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.***

**RESPONSE:** Not Applicable.

**Access to MRI Units.** *All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).*

**RESPONSE:** As previously mentioned, the facility housing the MRI unit is centrally located given its proximity to two of Nashville's heavily used interstates, Interstates 40 and 440, as well as West End Avenue, which part of a major bus route. In 2014, the Applicant performed a total of 4,104 procedures. Coupling the facility's location near interstates, a major bus route, the fact that 92% of the Service Area's population drive together with the MRI unit's high utilization indicates that its location is accessible to 75% of the Service Area's population. Moreover, there are multiple residential construction sites within a mile of the MRI that will put even more Davidson County residents within easy access of the location.

**Economic Efficiencies.** *All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.*

**RESPONSE:** Not Applicable. The Applicant will take over services being provided by a currently existing MRI with one of the highest utilization rates in Davidson County.

**Need Standards for non-Specialty MRI Units.**

***A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve-month period reflected***

*in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:*

**Stationary MRI Units:** *1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year*

**Mobile MRI Units:** *Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.*

**RESPONSE:** The Patient Origin Utilization chart prepared by the Health Services and Development Agency indicates that 50,485 or 93.07% of the MRI procedures performed for Davidson County residents were performed using MRIs in Davidson County in 2013. Additionally, the Health Services Development Agency MRI Utilization survey contains utilization data for all MRI units in Tennessee for the years 2011-2013. MRI utilization in Davidson County in 2013 is detailed in the chart below:

| 2013 Davidson County MRI Utilization |          |   |                 |                         |                    |
|--------------------------------------|----------|---|-----------------|-------------------------|--------------------|
| Facility Type                        | County   | Facility                                    | Number of MRI's | Total Procedures (2013) | Procedures per MRI |
| ODC                                  | Davidson | Belle Meade Imaging                         | 1               | 3085                    | 3085               |
| PO                                   | Davidson | Center for Inflammatory Disease             | 1               | 19                      | 19                 |
| PO                                   | Davidson | Elite Sports Medicine & Orthopaedic Center  | 2               | 4771                    | 2385.5             |
| PO                                   | Davidson | Heritage Medical Associates - Murphy Avenue | 1*              | 1965                    | 1965               |
| ODC                                  | Davidson | Hillsboro Imaging                           | 1               | 4252                    | 4252               |
| ODC                                  | Davidson | Millennium MRI, LLC                         | 1*              | 451                     | 451                |
| PO                                   | Davidson | Nashville Bone and Joint                    | 1*              | 939                     | 939                |
| HOSP                                 | Davidson | Nashville General Hospital                  | 1               | 1775                    | 1775               |
| PO                                   | Davidson | Neurological Surgeons, PC Imaging Office    | 1               | 4891                    | 4891               |
| ODC                                  | Davidson | Next Generation Imaging, LLC                | 1*              | 859                     | 859                |
| H-Imaging                            | Davidson | One Hundred Oaks Breast Center              | 1               | 682                     | 682                |
| ODC                                  | Davidson | One Hundred Oaks Imaging                    | 2               | 5430                    | 2715               |
| ODC                                  | Davidson | Outpatient Diagnostic Center of Nashville   | 2               | 5044                    | 2522               |
| PO                                   | Davidson | Pain Management Group, PC                   | 1               | 2712                    | 2712               |
| ODC                                  | Davidson | Premier Orthopaedics and Sports Medicine    | 2               | 4471                    | 2235.5             |
| ODC                                  | Davidson | Premier Radiology Belle Meade               | 3               | 6929                    | 2309.67            |
| ODC                                  | Davidson | Premier Radiology Brentwood                 | 1               | 1356                    | 1356               |
| ODC                                  | Davidson | Premier Radiology Hermitage                 | 2               | 4603                    | 2301.5             |
| ODC                                  | Davidson | Premier Radiology Midtown                   | 2               | 1351                    | 675.5              |
| ODC                                  | Davidson | Premier Radiology Nashville                 | 1               | 2072                    | 2072               |

| 2013 Davidson County MRI Utilization |          |  |                 |                         |                    |
|--------------------------------------|----------|--|-----------------|-------------------------|--------------------|
| Facility Type                        | County   | Facility   | Number of MRI's | Total Procedures (2013) | Procedures per MRI |
| ODC                                  | Davidson | Specialty MRI                                      | 1*              | 1158                    | 1158               |
| ODC                                  | Davidson | St. Thomas Heart (Stopped 2013)                    | N/A             | N/A                     | N/A                |
| HOSP                                 | Davidson | St. Thomas Midtown Hospital (fka Baptist Hospital) | 2               | 3249                    | 1624.5             |
| HOSP                                 | Davidson | St. Thomas West Hospital (fka St. Thomas Hospital) | 2               | 5464                    | 2732               |
| PO                                   | Davidson | Tennessee Oncology, PET Services                   | 1               | 1168                    | 1168               |
| PO                                   | Davidson | Tennessee Orthopaedic Alliance Imaging             | 3               | 6325                    | 2108.33            |
| HOSP                                 | Davidson | TriStar Centennial Medical Center                  | 3               | 8840                    | 2946.67            |
| HOSP                                 | Davidson | TriStar Skyline Medical Center                     | 2               | 8234                    | 4117               |
| HOSP                                 | Davidson | TriStar Southern Hills Medical Center              | 1               | 2740                    | 2740               |
| HOSP                                 | Davidson | TriStar Summit Medical Center                      | 1               | 4020                    | 4020               |
| HODC                                 | Davidson | TriStar Summit Medical Center - ODC                | 1*              | 2249                    | 2249               |
| HOSP                                 | Davidson | Vanderbilt University Hospital                     | 6               | 29507                   | 4917.83            |

There are 49 fixed MRI units (3 of which are shared by two providers each) in the Service Area. The MRI utilization of these 49 units was 130,611 MRI procedures in 2013, representing an average utilization of 2,665.53 procedures. There were 52 MRI units in the Service Area in 2012 with an MRI utilization of 129,843, representing an average utilization of 2,496.98 procedures. Most of the fixed units operating below the utilization threshold are specialty MRI units, with lower utilization standards, or physician practices. The high volume consistently experienced with respect to the MRI over the last few years demonstrates the need to continue this service.

(Sources:

[http://www.tn.gov/assets/entities/hsda/attachments/patient\\_origin2013.pdf](http://www.tn.gov/assets/entities/hsda/attachments/patient_origin2013.pdf);

<http://www.tn.gov/assets/entities/hsda/attachments/mri-equipment-utilization.pdf>)

#### **Need Standards for Specialty MRI Units.**

*a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to acquire a dedicated fixed or mobile breast MRI unit shall not receive a CON to use the MRI unit for non-dedicated purposes and shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures ( .80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:*

- 1. It has an existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MRJ unit equipment, and that is trained to interpret images produced by an MRJ unit configured exclusively for mammographic studies;*
- 2. Its existing mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit are in compliance with the federal Mammography Quality Standards Act;*
- 3. It is part of or has a formal affiliation with an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is based in the proposed service area.*
- 4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, and primary care providers.*

**RESPONSE:** Not Applicable.

*b. Dedicated fixed or mobile Extremity MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the total capacity of the proposed MRJ Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Extremity MRI Unit and a CON granted for this use should so state on its face.*

**RESPONSE:** Not Applicable.

*c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be*



*performed on a Dedicated fixed or mobile Multi-position MRI Unit and a CON granted for this use should so state on its face.*

**RESPONSE:** Not Applicable.

**Patient Safety and Quality of Care.** *The applicant must provide evidence that the proposed MRI equipment is safe and effective for its proposed use:*

*a. The United States Food and Drug Administration (FDA) shall certify the proposed equipment for clinical use.*

**RESPONSE:** Please see Attachment B.II.E.4.

*b. The applicant must demonstrate the proposed MRI's services will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.*

**RESPONSE:** The MRI unit currently exists and is functioning in compliance with all applicable regulations such as appropriate location of the magnet, installation of proper safety mechanisms, and documentation, training and implementation of all appropriate safety policies and procedures applicable in federal standards, manufacturer's specifications and regulatory agencies.

*c. The applicant must demonstrate how emergencies within the MRI facility will be managed in conformity with accepted medical practice.*

**RESPONSE:** The Applicant will adhere to the practice parameters that the American College of Radiology (the "ACR") detailed in its guidance document regarding the performance and interpretation of MRIs, attached hereto as Attachment C.1.A.

*d. The applicant must establish protocols that assure that all clinical MRI procedures performed are medically necessary and will not unnecessarily duplicate other services.*

**RESPONSE:** Patients' clinical history, prior exams and orders are reviewed to assure that all clinical MRI procedures performed are medically necessary and do not unnecessarily duplicate other services. In cases where there is a question regarding necessity or whether another modality may be more appropriate, the patient's referring provider is contacted for discussion and clarification.

*e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.*

**RESPONSE:** The Applicant is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

**f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.**

**RESPONSE:** The MRI currently exists and the Applicant will ensure that it maintains its ACR accreditation.

**g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.**

**RESPONSE:**

**The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.**

**RESPONSE:** If approved, the Applicant will submit all data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

**In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:**

**a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;**

**RESPONSE:** Not Applicable.

**b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or**

**RESPONSE:** Not Applicable.

**c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or**

**RESPONSE:** Not Applicable. The Applicant is already a TennCare/Medicaid and Medicare provider and intends to maintain and increase its provision of services to Medicare and TennCare/Medicaid patients as part of its mission to improve access to comprehensive, cost-effective care.

***d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.***

**RESPONSE:** Not Applicable.

The proposed project will further the 5 Principles for Achieving Better Health as set forth in the State Health Plan.

1. The purpose of the State Health Plan is to improve the health of Tennesseans.

**RESPONSE:** This project will improve the health of Tennesseans by ensuring continued, necessary access to imaging services in a central location, which will make said services more convenient and therefore more likely to be used by Tennesseans. By ensuring those who would otherwise omit an MRI scan, lives can be saved or improved because diseases or conditions will be diagnosed earlier than would be possible absent a diagnostic scan. This, in turn leads to faster treatment and lower overall costs.

2. Every citizen should have reasonable access to health care.

**RESPONSE:** The principles mentioned above apply to this response as well. Given the MRI's high utilization rate, this project is necessary to ensure continued reasonable access to often life-saving diagnostic testing as quickly as possible. With zero or minimal wait times, patients will receive timely treatment, leading to improved outcomes and lower costs.

3. The State's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the State's health care system.

**RESPONSE:** The project promotes economic efficiencies because, when compared with the Applicant acquiring a brand new MRI, it is the most cost-effective way to maintain health care services at their current levels without duplicating expensive MRI services. The existing MRI will be put to optimal use, contributing to the orderly development of healthcare by, in effect, shifting a resource to a party who can make better, more extensive use of it. Markets would remain competitive because the Applicant would not feel pressured to increase

costs to finance a brand new MRI and other providers will have to remain attractive alternatives to the Applicant's base of providers and patients.

4. Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers.

**RESPONSE:** The Applicant will continue to improve its quality of care through the adoption of best practices and data-driven evaluations. Additionally, the Applicant will maintain the MRI's American College of Radiology accreditation. Such accreditation requires specific quality and safety standards to be in place and that the MRI be operated and monitored by qualified personnel, who ensure the MRI meets state and federal equipment specification and performance requirements.

5. The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.

**RESPONSE:** In addition to ensuring that the MRI is put to its best to use, the applicant's acquisition of the physician practice and the MRI ensures that physicians who might not have been able to keep pace with the demands of an ever-changing healthcare landscape remain in the field, and providing quality healthcare services to the constituents of the service area.

- b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c)

**RESPONSE:** Not Applicable.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.

**RESPONSE:** Saint Thomas Medical Partners is a recognized multi-specialty medical group of choice providing comprehensive, cost-effective and accessible care to Middle Tennessee and Southern Kentucky communities, developing services and innovative partnerships across the region to enhance health and well-being. The addition of this physician practice group and the related MRI equipment and services will enhance the ability to provide such comprehensive, cost-effective and accessible care. The long-range plan for the Applicant is to provide a continuum of services to the residents of Davidson County and surrounding areas.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. **Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

**RESPONSE:** Please see Attachment C. Need 3.

4. A. Describe the demographics of the population to be served by this proposal.

**RESPONSE:** The population in the proposed service area, Davidson County is growing exponentially and is projected to continue to grow over the next five to seven years:

| County          | 2010 Population | 2015 Population | 2020 Population |
|-----------------|-----------------|-----------------|-----------------|
| <b>Davidson</b> | 626,681         | 663,151         | 694,104         |

*Source: Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health*

The following chart illustrates the demographics of the proposed service area and surrounding counties:

#### **Demographics of the Service Area and Surrounding Counties**

|                  | 2015             | %65+ 2015     | TennCare Enrollees | 2020             | %65+ 2020     |
|------------------|------------------|---------------|--------------------|------------------|---------------|
| Cheatham         | 40,088           | 12.76%        | 7,303              | 41,189           | 15.51%        |
| Davidson         | 663,151          | 11.62%        | 144,141            | 694,104          | 13.28%        |
| Robertson        | 71,437           | 11.64%        | 13,333             | 76,232           | 13.37%        |
| Rutherford       | 302,237          | 9.48%         | 46,765             | 348,550          | 10.51%        |
| Sumner           | 175,054          | 15.01%        | 28,474             | 188,871          | 17.01%        |
| Williamson       | 207,872          | 11.65%        | 11,364             | 234,098          | 12.90%        |
| Wilson           | 126,472          | 14.97%        | 18,057             | 137,740          | 17.17%        |
| <b>Tennessee</b> | <b>6,649,438</b> | <b>15.23%</b> | <b>1,433,687</b>   | <b>6,956,764</b> | <b>16.08%</b> |

*Source: Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health, TennCare Division of Health Care Finance and Administration*

Davidson County has a significant minority population, with approximately 41.6% of the population being of African American, Asian, Native American, or Hispanic/Latino ethnicity.

From 2009 to 2013, an estimated 18.5% of the population of Davidson County lived below the poverty level, and the median household income for the same period of time was \$47,335, with an average of 2.39 persons per household.

- B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the

business plans of the facility will take into consideration the special needs of the service area population.

**RESPONSE:** Saint Thomas Medical Partners and its affiliated Saint Thomas entities, have a long history of providing services to all consumers, including the elderly, women, racial and ethnic minorities, and low income groups.

- Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

**RESPONSE:** There are no approved but unimplemented CONs of similar projects in the service area. There are 49 fixed MRI units (3 of which are shared by two providers each) in the Service Area. The MRI utilization of these 49 units was 130,611 MRI procedures in 2013, representing an average utilization of 2,665.53 procedures. There were 52 MRI units in the Service Area in 2012 with an MRI utilization of 129,843, representing an average utilization of 2,496.98 procedures. Most of the fixed units operating below the utilization threshold are specialty MRI units, with lower utilization standards, or physician practices. The high volume consistently experienced with respect to the MRI over the last few years demonstrates the need to continue this service.

The chart below, utilizing data from the Health Services and Development Agency Medical Equipment Utilization Survey, indicates the number of MRI procedures in the defined service area for the last three years.

**Davidson County MRI Utilization 2012-Present**

| Facility Type | County   | Facility                                    | Total Procedures |      |      |      |
|---------------|----------|---|------------------|------|------|------|
|               |          |   | 2012             | 2013 | 2014 | 2015 |
| ODC           | Davidson | Belle Meade Imaging                         | 2817             | 3085 | **   | **   |
| PO            | Davidson | Center for Inflammatory Disease             | 63               | 19   | **   | **   |
| PO            | Davidson | Elite Sports Medicine & Orthopaedic Center  | 4781             | 4771 | **   | **   |
| PO            | Davidson | Heritage Medical Associates - Murphy Avenue | 1831             | 1965 | **   | **   |
| ODC           | Davidson | Hillsboro Imaging                           | 3968             | 4252 | **   | **   |
| ODC           | Davidson | Millennium MRI, LLC                         | 366              | 451  | **   | **   |
| PO            | Davidson | Nashville Bone and Joint                    | 953              | 939  | **   | **   |

| Facility Type | County   | Facility   | Total Procedures |      |      |      |
|---------------|----------|--|------------------|------|------|------|
|               |          |  | 2012             | 2013 | 2014 | 2015 |
| HOSP          | Davidson | Nashville General Hospital                         | 1481             | 1775 | **   | **   |
| PO            | Davidson | Neurological Surgeons, PC Imaging Office           | 4305             | 4891 |      |      |
| ODC           | Davidson | Next Generation Imaging, LLC                       | 649              | 859  | **   | **   |
| H-Imaging     | Davidson | One Hundred Oaks Breast Center                     | 679              | 682  | **   | **   |
| ODC           | Davidson | One Hundred Oaks Imaging                           | 5226             | 5430 | **   | **   |
| ODC           | Davidson | Outpatient Diagnostic Center of Nashville          | 4878             | 5044 | **   | **   |
| PO            | Davidson | Pain Management Group, PC                          | 2451             | 2712 | **   | **   |
| ODC           | Davidson | Premier Orthopaedics and Sports Medicine           | 5214             | 4471 | **   | **   |
| ODC           | Davidson | Premier Radiology Belle Meade                      | 7686             | 6929 | **   | **   |
| ODC           | Davidson | Premier Radiology Brentwood                        | 1058             | 1356 | **   | **   |
| Davidson      | ODC      | Premier Radiology Hermitage                        | 4943             | 4603 | **   | **   |
| Davidson      | ODC      | Premier Radiology Midtown                          | 0                | 1351 | **   | **   |
| Davidson      | ODC      | Premier Radiology Nashville                        | 2376             | 2072 | **   | **   |
| Davidson      | ODC      | Specialty MRI                                      | 1467             | 1158 | **   | **   |
| Davidson      | ODC      | St. Thomas Heart (Stopped 2013)                    | 1609             | N/A  | **   | **   |
| Davidson      | HOSP     | St. Thomas Midtown Hospital (fka Baptist Hospital) | 4752             | 3249 | **   | **   |
| Davidson      | HOSP     | St. Thomas West Hospital (fka St. Thomas Hospital) | 5631             | 5464 | **   | **   |
| Davidson      | PO       | Tennessee Oncology, PET Services                   | 279              | 1168 | **   | **   |
| Davidson      | PO       | Tennessee Orthopaedic Alliance Imaging             | 7163             | 6325 | **   | **   |
| Davidson      | HOSP     | TriStar Centennial Medical Center                  | 7996             | 8840 | **   | **   |
| Davidson      | HOSP     | TriStar Skyline Medical Center                     | 7930             | 8234 | **   | **   |
| Davidson      | HOSP     | TriStar Southern Hills Medical Center              | 2659             | 2740 | **   | **   |
| Davidson      | HOSP     | TriStar Summit Medical Center                      | 4008             | 4020 | **   | **   |

| Facility Type | County | Facility                            | Total Procedures |       |      |      |
|---------------|--------|-------------------------------------|------------------|-------|------|------|
|               |        |                                     | 2012             | 2013  | 2014 | 2015 |
| Davidson      | HODC   | TriStar Summit Medical Center - ODC | 1918             | 2249  | **   | **   |
| Davidson      | HOSP   | Vanderbilt University Hospital      | 28706            | 29507 | **   | **   |

HSDA MRI Utilization Trends

\*\*Unavailable

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology **must include** detailed calculations or documentation from referral sources, and identification of all assumptions.

**RESPONSE:**

**Applicant's Current and Projected Utilization**

| Year  | MRI Procedures |
|-------|----------------|
| 2012  | 4,305          |
| 2013  | 4,891          |
| 2014  | 4,104          |
| 2015* | 2,190          |
| 2016  | 4,104          |
| 2017  | 4,104          |

\*Procedures performed through June 30, 2015

The projected utilization statistics above are based upon the Applicant's experience with and statistical data for the existing facility.



## ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)
- The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.
- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
- For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

**RESPONSE:** Because the MRI unit is already in place and operational, the project costs in this application consist primarily of the cost of the space and service agreement, as detailed on the Project Costs Chart. There is no construction or renovation involved in this project. This project will be funded through operating revenues and cash reserves.

**PROJECT COSTS CHART**

|  |   |                             |
|--|---|-----------------------------|
| <b>A. Construction and equipment acquired by purchase</b>          |   |                             |
| 1.   | Architectural and Engineering Fees                                | \$ _____                    |
| 2.   | Legal, Administrative (Excluding CON Filing Fee), Consultant Fees | \$10,000 _____              |
| 3.   | Acquisition of Site   | _____                       |
| 4.   | Preparation of Site   | \$ _____                    |
| 5.   | Construction Costs  | \$ _____                    |
| 6.   | Contingency Fund  | \$20,000 _____              |
| 7.   | Fixed Equipment (Not included in Construction Contract)           | \$359,960 _____             |
| 8.   | Moveable Equipment (List all equipment over \$56,000)             | _____                       |
| 9.   | Other (Service Contract) _____                                    | \$574,740 _____             |
| <b>B. Acquisition by gift, donation, or lease: Not Applicable.</b> |   |                             |
| 1.   | Facility (inclusive of building and land)                         | \$1,243,497 _____           |
| 2.   | Building only   | _____                       |
| 3.   | Land only   | \$ _____                    |
| 4.   | Equipment (Specify) _____   | _____                       |
| 5.   | Other (Specify) _____   | _____                       |
| <b>C. Financing Costs and Fees: Not Applicable.</b>                |   |                             |
| 1.   | Interim Financing   | \$ _____                    |
| 2.   | Underwriting Costs  | \$ _____                    |
| 3.   | Reserve of One Year's Debt Service                                | \$ _____                    |
| 4.   | Other (specify) _____   | \$ _____                    |
| <b>D. Estimated Project Cost (A+B+C+)</b>                          |   | \$2,208,197 _____           |
| <b>E. CON Filing Fee</b>   |   | \$4,968.44 _____            |
| <b>F. Total Estimated Project Cost (D+E)</b>                       |   | \$2,213,165.44 _____        |
| <b>TOTAL</b>   |   | <b>\$2,213,165.44</b> _____ |

2. Identify the funding sources for this project.

Please check the applicable item(s) below and briefly summarize how the project will be financed. (**Documentation for the type of funding *MUST* be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.**)

- ☐ A Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;
- ☐ B Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- ☐ C General obligation bonds--Copy of resolution from issuing authority or minutes from the appropriate meeting;
- ☐ D Grants--Notification of intent form for grant application or notice of grant award; or
- ☒ E Cash Reserves--Appropriate documentation from Chief Financial Officer.
- ☐ F Other--Identify and document funding from all other sources.

**RESPONSE:** The source of funding for the proposed project will be cash reserves. Please see Attachment Section C: Economic Feasibility – 2 for documentation the Applicant's Chief Financial Officer.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

**RESPONSE:** Because the MRI in question will already be in place and operational, the project costs in this application consist primarily of the cost of the space and equipment service contract. There are no associated site acquisition, construction, or renovation costs involved. The project will be funded through operating revenues and cash reserves.

The total cost for this proposal is \$2,213,165, which is reasonable and justified in light of the costs of similar projects.

4. Complete Historical and Projected Data Charts on the following two pages--**Do not modify the Charts provided or submit Chart substitutions!** Historical Data Chart represents revenue and expense information for the last *three* (3) years for

**August 25, 2015****3:48 pm**

2. which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the **Proposal Only** (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

**RESPONSE:** Please see Attachment C. Economic Feasibility – 4. Historical and Projected Data Charts.

3. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

**RESPONSE:** The project's average gross charge, average deduction from operating revenue, and average net charge are as follows:

|                             | 2014       | Year 1     | Year 2     |
|-----------------------------|------------|------------|------------|
| <b>Average Gross Charge</b> | \$1,638.74 | \$1,738.54 | \$1,790.70 |
| <b>Average Deduction</b>    | \$1,089.94 | \$1,156.31 | \$1,191.00 |
| <b>Average Net Charge</b>   | \$548.80   | \$582.23   | \$599.69   |

4. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

**RESPONSE:** Below is a chart that reflects the current and proposed charge schedules for the project, which are both below the Median Charge of \$2,175.15 per the HSDA's chart of the 2013 *Gross Charges per Procedure/Treatment*.

| <b>Payor</b> | <b>Current*</b> | <b>Year 1</b> | <b>Year 2</b> |
|--------------|-----------------|---------------|---------------|
| Private Pay  | \$1,687.90      | \$1,738.54    | \$1,790.70    |
| Medicare     | \$1,687.90      | \$1,738.54    | \$1,790.70    |
| Managed Care | \$1,687.90      | \$1,738.54    | \$1,790.70    |

\*2015 charges

The Applicant does not anticipate any changes to current gross charges as a result of the project.

Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable,

compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

**RESPONSE:** Below is a chart of the Medicare approved charges:

| CPT Code | Description of Procedure              | Medicare Allowable |
|----------|---------------------------------------|--------------------|
| 70551    | MRI BRAIN; WO CONTRAST                | \$212.16           |
| 70552    | MRIBRAIN; W CONTRAST                  | \$294.36           |
| 70553    | MRI BRAIN WO/W CONTRAST               | \$347.91           |
| 71550    | MRI CHEST                             | \$328.12           |
| 72141    | MRI SPINAL CANAL CERV; WO CONTRAST    | \$206.03           |
| 72142    | MRI SPINAL CANAL CERV; W/CONTRAST     | \$297.72           |
| 72146    | MRI SPINAL CANAL THORAC WO CONTRAST   | \$206.03           |
| 72147    | MRI SPINAL CANAL THORAC; W CONTRAST   | \$298.78           |
| 72148    | MRI SPINAL CANAL LUMB; WO CONTRAST    | \$205.06           |
| 72149    | MRI SPINAL CANAL LUMB; W CONTRAST     | \$294.17           |
| 72156    | MRI SPINAL WO THEN W CONTRAST; CERV   | \$349.85           |
| 72157    | MRI SPINAL WO THEN W CONTRAST; THORAC | \$350.55           |
| 72158    | MRI SPINAL WO THEN W CONTRAST; LUMB   | \$348.61           |
| 72197    | MRI PELVIS WO/W CONTRAST              | \$464.02           |
| 73221    | MRI UPPER JOINT; UPPER EXTREMITY      | \$216.84           |
| 73721    | MRI ANY JOINT; LOWER EXTREMITY        | \$216.52           |

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

**RESPONSE:** Cost-effectiveness is demonstrated in the project data charts, which indicate a positive operating revenue will continue.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

**RESPONSE:** The project is economically feasible and will produce positive operating revenue by the end of Year One.

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

**RESPONSE:** The Applicant and its affiliates participate in both the Medicare and TennCare/Medicaid programs and have a history of providing care regardless of payor source. The Applicant's records indicate its estimated payor mix for 2014 with respect to gross charges for these payors was 45.8% Medicare and 8.9% TennCare/Medicaid. Additionally, the Applicant provided \$310,937,498, or 7.3%,

RESPONSE: Please see the chart below:

Utilization of Existing MRI Providers in PSA, 2012-2014

| County     | Type<br>(PO,<br>ODC,<br>Hospital,<br>HOPD) | Current<br>units<br>(fixed) | Current<br>Units<br>(mobile<br>) | 2012    | 2013    | 2014    | %<br>Change<br>'12-'14 | MRI Utilization by County<br>2012-2014 |         |         |
|------------|--|-----------------------------|----------------------------------|---------|---------|---------|------------------------|--|---------|---------|
|            |  |                             |                                  |         |         |         |                        | 2012                                   | 2013    | 2014    |
| Davidson   | Hosp.                                      | 23                          | 0                                | 63,163  | 63,829  | 61,939  | -1.94%                 | 130,843                                | 130,611 | 134,373 |
|            | ODC  | 19**                        | 0                                | 43,257  | 41,061  | 45,272  | 4.66%                  |  |         |         |
|            | PO   | 10**                        | 0                                | 21,826  | 22,790  | 24,335  | 11.5%                  |  |         |         |
|            | HODC                                       | 1*                          | 0                                | 1,918   | 2,249   | 2,099   | 9.44%                  |  |         |         |
|            | H-<br>Imaging                              | 1                           | 0                                | 679     | 682     | 728     | 7.22%                  |  |         |         |
| Cheatham   | Hosp.                                      | 0                           | 1 (2<br>days/<br>week)           | 375     | 303     | 298     | 20.53%                 | 375                                    | 303     | 298     |
| Robertson  | Hosp.                                      | 1                           | 0                                | 2,780   | 3,232   | 3,407   | 22.55%                 | 2,780                                  | 3,232   | 3,407   |
| Rutherford | Hosp.                                      | 3                           | 0                                | 4,507   | 4,333   | 4,503   | -.0009%                | 20,118                                 | 22,863  | 25,300  |
|            | ODC  | 4                           | 0                                | 9,302   | 12,388  | 13,925  | 17.75%                 |  |         |         |
|            | PO   | 2                           | 0                                | 6,309   | 6,142   | 6,872   | 8.92%                  |  |         |         |
| Sumner     | H-<br>Imaging                              | 1                           | 1 (1<br>day/<br>week)            | 1,954   | 2,237   | 2,418   | 23.75%                 | 9,748                                  | 10,259  | 10,512  |
|            | HODC                                       | 1                           | 0                                | 2,116   | 1,670   | 1,669   | 21.12%                 |  |         |         |
|            | Hosp.                                      | 2                           | 0                                | 4,958   | 5,629   | 5,787   | 16.72%                 |  |         |         |
|            | PO   | 1                           | 0                                | 720     | 723     | 638     | -.11%                  |  |         |         |
|            |  |                             |                                  | 3,654   | 4,103   | 4,119   | 12.73%                 |  |         |         |
| Williamson | Hospital                                   | 1                           | 0                                | 3,654   | 4,103   | 4,119   | 12.73%                 | 14,373                                 | 14,549  | 14,008  |
|            | Outpatient<br>Diagnostic<br>Center         | 3                           | 0                                | 7,991   | 7,703   | 8,012   | .3%                    |  |         |         |
|            | Physician<br>Office                        | 1                           | 0                                | 2,728   | 2,743   | 1,877   | -31%                   |  |         |         |
| Wilson     | Hospital                                   | 1                           | 0                                | 3,000   | 2,213   | 2,472   | 17.6%                  | 7,881                                  | 7,772   | 8,073   |
|            | Outpatient<br>Diagnostic<br>Center         | 1                           | 0                                | 2,559   | 2,562   | 3,191   | 24.7%                  |  |         |         |
|            | Physician<br>Office                        | 3                           | 0                                | 2,322   | 2,997   | 2,410   | 3.79%                  |  |         |         |
| Total      |  | 79                          | 2                                | 186,118 | 189,589 | 195,971 | 5.29%                  | 186,118                                | 189,589 | 195,971 |

\*Shared

\*\*Includes Shared Davidson PO: 1 with ODC, 1 with HODC; ODC: 1 with an PO

**10. Item 6 (Applicant's Projected Utilization)**

in care to charity/medically indigent patients in 2014. The Applicant anticipates that the payor mix will remain very similar.

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

**RESPONSE:** Please see the consolidated audited financial statements of Ascension Health Alliance d/b/a Ascension, the Applicant's ultimate parent entity attached hereto as Attachment C: Economic Feasibility – 10.

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

- i. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

**RESPONSE:** Physician practice group acquisitions in which an applicant takes over services currently being provided by existing provider, especially provider with proven equipment and a high utilization rate, have proven to be economic and effective alternatives.

- ii. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

**RESPONSE:** Not Applicable.

## CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

**RESPONSE:** As a member of the Saint Thomas Health network, the Applicant is a member of an integrated healthcare system of hospitals, physician practices, and outpatient diagnostic services. If the Certificate of Need is approved, the Applicant intends to enter into an appropriate transfer agreement with its affiliate, Saint Thomas Midtown Hospital, which is less than a mile from the Applicant's location, as to the transfer of any patient who encounters an emergency during an MRI procedure. Please also see Attachment A.13 for an overview of the Applicant's Managed Care agreements in place to ensure seamless and comprehensive patient care.

2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

**RESPONSE:** The project will have a positive effect on the health care system and will help ensure that all facilities in the county are providing the best possible services at competitive price points.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

**RESPONSE:** Anticipated staffing pattern: AS well as administrative staff which are shared with other aspects of the physician practice, there are 3 FTE MRI Technologists, with wages ranging from \$22 to \$35 per hour. According to the Tennessee Department of Labor and Workforce Development, the mean hourly wage of the broad category of Health Technologists and Technicians for the service area is \$32.11; entry-level wages are \$19.58 per hour and experienced wages are \$38.37 per hour, so the Applicant's wages sync closely with the prevailing wage pattern in the service area.

(Source: <https://www.jobs4tn.gov/admin/gsipub/htmlarea/Uploads/nashville.pdf>)

4. Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.



**RESPONSE:** The Applicant pays wages and offers benefits that are in-line with the prevailing rates of other employment opportunities in the community. The Applicant currently has the staff required by the proposal, including adequate professional staff as per the Department of Health, and does not anticipate difficulty filling positions needed for the project.

5. Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping, and staff education.

**RESPONSE:** The Applicant has reviewed and understands the aforementioned requirements.

6. Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).

**RESPONSE:** While the Applicant has no agreements in place, it is a part of the broader Saint Thomas Health network of hospitals and providers, which has relationships with numerous schools throughout Middle Tennessee with respect to the training of students.

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

**RESPONSE:** The Applicant is familiar with all licensure requirements of the Tennessee regulatory agencies and relevant Medicare requirements.

- (b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

**RESPONSE:** American College of Radiology, the certificate for which is attached hereto as Attachment C.7(b).

The Applicant is certified for Medicare and Medicaid participation. Its provider numbers are as follows:

|                         |                       |
|-------------------------|-----------------------|
| State License Number:   | <u>Not Applicable</u> |
| Medicare Certification: | <u>37-04080</u>       |
| Medicaid Certification: | <u>37-04080</u>       |

- (c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

**RESPONSE:** Not Applicable. The Applicant is not a licensed healthcare institution.

- (d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

**RESPONSE:** Not Applicable.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

**RESPONSE:** Not Applicable.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

**RESPONSE:** Not Applicable.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

**RESPONSE:** If the proposal is approved, the Applicant will be happy to provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

**PROOF OF PUBLICATION**

**Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.**

0101415 PM4:19

**DEVELOPMENT SCHEDULE**

00914159415

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.
2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the "good cause" for such an extension.

Form HF0004  
Revised 02/01/06  
Previous Forms are obsolete

## PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in T.C.A. § 68-11-1609(c): November 18, 2015 if the project is not heard on the consent calendar; however, the Applicant has requested that the project be placed on the consent calendar, and if that request is granted the project will be heard on October 28, 2015. Assuming the CON approval becomes the final agency action on one of those dates, indicate the number of days **from the above agency decision date** to each phase of the completion forecast.

| <u>Phase</u>  | <u>DAYS<br/>REQUIRED</u> | <u>Anticipated Date<br/>(MONTH/YEAR)</u> |
|---|--------------------------|--|
| 1. Architectural and engineering contract signed                            | _____                    | N/A                                      |
| 2. Construction documents approved by the Tennessee<br>Department of Health | _____                    | N/A                                      |
| 3. Construction contract signed   | _____                    | N/A                                      |
| 4. Building permit secured  | _____                    | N/A                                      |
| 5. Site preparation completed   | _____                    | N/A                                      |
| 6. Building construction commenced  | _____                    | N/A                                      |
| 7. Construction 40% complete  | _____                    | N/A                                      |
| 8. Construction 80% complete  | _____                    | N/A                                      |
| 9. Construction 100% complete<br>(approved for occupancy)                   | _____                    | N/A                                      |
| 10. *Issuance of license  | _____                    | N/A                                      |
| 11. *Initiation of service  | 30                       | Nov./Dec. 2015                           |
| 12. Final Architectural Certification of Payment                            | _____                    | N/A                                      |
| 13. Final Project Report Form (HF0055)                                      | 30                       | Nov./Dec. 2015                           |

**\* For projects that do NOT involve construction or renovation: Please complete items 10 and 11 only.**

**Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.**

**Attachment A.3**  
**Corporate Charter and Certificate of Existence**

**ARTICLES OF AMENDMENT  
OF  
BAPTIST HEALTHCARE GROUP**

CONTROL NO. 265254

FILED

**To the Tennessee Secretary of State:**

Pursuant to Section 48-60-105 of the Tennessee Nonprofit Corporation Act, as amended, the undersigned officer of Baptist Healthcare Group, a domestic nonprofit corporation (the "Corporation"), hereby submits these Articles of Amendment to its Charter:

- (1) The name of the Corporation as it appears of record is Baptist Healthcare Group.
- (2) The Corporation is not for profit.
- (3) The text of the Amendment is as follows: Article I, Section 1.1 of the Amended and Restated Charter of the Corporation, as amended, is deleted and the following language shall be substituted in its place:

1.1 The name of the corporation is "Saint Thomas Medical Partners."

- (4) The Articles of Amendment were duly adopted by the sole member of the Corporation on Feb 09, 2015.

(5) Approval of the amendment to the charter by some person or persons other than the sole member of the Corporation, the Board of Trustees, or the incorporator, is required pursuant to Section 48-60-301 of the Tennessee Nonprofit Corporation Act, as amended, and such approval was obtained on Feb 09, 2015.

- (6) The Articles of Amendment shall be effective on the date of filing.

**BAPTIST HEALTHCARE GROUP**

By: \_\_\_\_\_

Michael Schatzlein, M.D., President

R0048-9540 02/11/2015 11:44 AM Received by Tennessee Secretary of State The Harbort



**STATE OF TENNESSEE**  
**Tre Hargett, Secretary of State**  
 Division of Business Services  
 William R. Snodgrass Tower  
 312 Rosa L. Parks AVE, 6th FL  
 Nashville, TN 37243-1102

**BRADLEY ARANT BOULT CUMMINGS LLP**  
 1600 DIVISION STREET SUITE 700  
 NASHVILLE, TN 37203

August 12, 2015

**Request Type: Certificate of Existence/Authorization**  
 Request #: 0172149

Issuance Date: 08/12/2015  
 Copies Requested: 1

**Document Receipt**

Receipt #: 002190257

Filing Fee: \$22.25

Payment-Credit Card - State Payment Center - CC #: 164162025

\$22.25

**Regarding: Saint Thomas Medical Partners**

**Filing Type: Nonprofit Corporation - Domestic**

**Formation/Qualification Date: 04/28/1993**

**Status: Active**

**Duration Term: Perpetual**

**Business County: DAVIDSON COUNTY**

**Control #: 265254**

**Date Formed: 04/28/1993**

**Formation Locale: TENNESSEE**

**Inactive Date:**

**CERTIFICATE OF EXISTENCE**

I, Tre Hargett, Secretary of State of the State of Tennessee, do hereby certify that effective as of the issuance date noted above

**Saint Thomas Medical Partners**

- \* is a Corporation duly incorporated under the law of this State with a date of incorporation and duration as given above;
- \* has paid all fees, taxes and penalties owed to this State (as reflected in the records of the Secretary of State and the Department of Revenue) which affect the existence/authorization of the business;
- \* has filed the most recent annual report required with this office;
- \* has appointed a registered agent and registered office in this State;
- \* has not filed Articles of Dissolution or Articles of Termination. A decree of judicial dissolution has not been filed.

Tre Hargett  
 Secretary of State

Processed By: Cert Web User

Verification #: 013182120



**Attachment A.13**  
**Managed Care Contracts**

**Hospitals Managed Care Contracts List**  
Updated 7-17-15

| Plan Name                                  | Products/Network/Payor Name  | Website   | Plan Type   | HOSPITALS  |                               |                                  |                               |  |
|--|--|---|---|--|-------------------------------|----------------------------------|-------------------------------|--|
|  |  |   |   | Saint Thomas West Hospital   | Saint Thomas Midtown Hospital | Saint Thomas Rutherford Hospital | Saint Thomas Hickman Hospital | Saint Thomas Hospital for Spinal Surgery |
| Aetna / USHealthcare                       | Aetna HMO (Includes OPOS and US Access), Elected Choice (EPO), Managed Choice POS, Open Choice PPO, Quality Point of Service (QPOS), US Access, National Advantage Plan, Aetna Select, Open Access Aetna Select, Aetna Open Access HMO, Aetna Open Access Elected Choice (only in CA, NY, TX, WA), Aetna Choice POS, Aetna Choice POS II, Aetna Open Access Managed Choice, Open Choice PPO, Traditional Choice, Aetna Affordable Health Choices PPO | <a href="http://www.aetna.com">www.aetna.com</a>  | HMO, EPO, POS, PPO, HMO/POS   | X<br>(Not in-network with Aetna Behavioral Health Network)                         | X                             | X                                | X                             | X  |
| Alive Hospice<br>AMERIGROUP Community Care | Aetna Medicare Advantage - STH is NOT in this network<br><br>Alive Hospice<br>AMERIGROUP Community Care  | <a href="http://www.alivehospice.org/">http://www.alivehospice.org/</a><br><br><a href="http://www.myamerigroup.com/">http://www.myamerigroup.com/</a>  | Hospice<br><br>TennCare HMO   | X  | X                             | X                                | X                             | N/A                                      |
| Avalon Hospice (formerly Trinity Hospice)  | AMERIVANTAGE Medicare Advantage<br>(Includes Dual Eligible Special Needs Plan - SNP)<br><br>Trinity Hospice  | <a href="https://www.myamerigroup.com/English/Medicare/2008/TN/Pages/CountyPlanSelect.aspx">https://www.myamerigroup.com/English/Medicare/2008/TN/Pages/CountyPlanSelect.aspx</a><br><br><a href="http://www.avalon-hospice.com/">www.avalon-hospice.com/</a> | Medicare Advantage<br><br>Hospice (Inpatient services for Medicare and TennCare Patients) | X<br>(In Network for Behavioral Health)<br>X<br>(In Network for Behavioral Health) | X                             | X                                | X                             | N/A                                      |

| Plan Name               | Products/Network/Payor Name  | Website  | Plan Type   | HOSPITALS                  |                               |                                  |                               |  |
|-------------------------|--|--|---|----------------------------|-------------------------------|----------------------------------|-------------------------------|--|
|                         |  |  |   | Saint Thomas West Hospital | Saint Thomas Midtown Hospital | Saint Thomas Rutherford Hospital | Saint Thomas Hickman Hospital | Saint Thomas Hospital for Spinal Surgery |
| BC/BS of TN (BCBST)     | BlueAdvantage Local PPO and Regional PPO   | <a href="http://www.bcbst.com">www.bcbst.com</a>             | Medicare Advantage  | X                          |                               | X                                | X                             | X  |
|                         | D-SNP (Medicare Advantage Plan Dual Eligible Special Needs Plan) (Effective 1/1/14)  |  | D-SNP (Dual Eligible Medicare / Medicaid) PPO   | X                          |                               | X                                | X                             | X  |
|                         | BlueCoverTN / Blue Network V (Terminated effective 1/1/14. Expect to be back in network mid-2015)  |  |   |                            |                               |                                  |                               |  |
|                         | Access TN (uses TennCare Select Network) Effective October 31, 2013, no new applications will be accepted. For current members with incomes above 100 percent of the federal poverty level and/or members who do not currently receive premium assistance, coverage will end April 30, 2014. |  |   |                            |                               |                                  |                               |  |
|                         | Cover Kids (uses TennCare Select Network as of 10/1/13) (Will gradually phase out pregnant members during 2014 until the baby is born and 60 days after delivery. Newborn will not receive benefits)   |  | PPO   |                            |                               |                                  |                               |  |
|                         | Blue Preferred / Network P (includes Suitcase PPO Program/ BlueCard and Federal Employees Standard Option and Basic Option Programs)   |  | PPO   | X                          |                               | X                                | X                             | X  |
|                         | Blue Select / Network S (includes Suitcase PPO Program/BlueCard)   |  | PPO   | X                          |                               | X                                | X                             | X  |
|                         | Network E (uses Mission Point Health Partners Narrow Network as well as Exchange through Network P and S) - Includes Bronze, Silver and Gold   |  | Health Insurance Exchange / Marketplace   | X                          |                               | X                                | X                             | X  |
|                         | Network M (Mission Point Health Partners network for Self-Insured Accounts, including STHe employees)  |  | ACO/Self-Insured  | X                          |                               | X                                | X                             | X  |
| Bluegrass Family Health | Bluegrass Family Health  | <a href="http://www.bfth.com">www.bfth.com</a>               | HMO, PPO, POS, Consumer Directed Health, including HRA and HSA, Self Insured / TPA, Network Leasing | X                          |                               | X                                | X                             | X  |
| Caris Healthcare        | Caris Healthcare   | <a href="http://www.carishealth.com">www.carishealth.com</a> | Hospice   | N/A                        | N/A                           | X                                | N/A                           | N/A                                      |

| Plan Name  | Products/Network/Payer Name  | Website   | Plan Type                        | HOSPITALS   |                               |                                  |                               |  |
|--|--|---|----------------------------------|---|-------------------------------|----------------------------------|-------------------------------|--|
|  |  |   |                                  | Saint Thomas West Hospital  | Saint Thomas Midtown Hospital | Saint Thomas Rutherford Hospital | Saint Thomas Hickman Hospital | Saint Thomas Hospital for Spinal Surgery |
| CenterCare Managed Care Programs                                     | Center Care  | <a href="http://www.centercare.com">www.centercare.com</a>  | PPO, POS                         | X<br>(Behavioral Health is not specifically excluded from participation, Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
| Cigna Healthplan   | Cigna Healthplan PPO (Includes Gatekeeper POS, HMO Fully Insured, Open Access Plus and Network, Standridge Choice, Great West PPO HMO and POS)   | <a href="http://www.cigna.com">www.cigna.com</a>  | PPO, HMO, POS, Open Access       | X<br>(Not in-network with Cigna Behavioral Health)  | X                             | X                                | X                             | X  |
| Community Health Plan (aka AmeriChoice)                              | STH NOT IN CIGNA LOCAL PLUS NETWORK<br>Community Health Plan, aka AmeriChoice (aka United HealthCare Plan of the River Valley, Inc.) (Includes Dual Eligible Special Needs Plan - SNP)   | <a href="http://www.americhoice.com/">www.americhoice.com/</a>  | PPO / Exchange                   | X<br>(Not in-network for Behavioral Health)   | X                             | X                                | X                             | X  |
| Coventry Corporation   | Coventry Health Plan (formerly First Health Direct)  | <a href="http://www.coventry.com">www.coventry.com</a>  | WC                               | X<br>(Behavioral Health is not specifically excluded from participation, Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
| Coventry Health Care (formerly First Health Direct)                  | Coventry Health Care (formerly First Health Direct) (As of 1/1/07, this replaced the First Health Direct business. It is the directly administered commercial business)  | <a href="http://coventryhealthcare.com">coventryhealthcare.com</a>  | PPO                              | X<br>(Behavioral Health is not specifically excluded from participation, Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
| Division of Rehabilitation Services                                  | Division of Rehabilitation Services  | <a href="http://www.in.gov/humanserv/rehab/rehab_main.html">http://www.in.gov/humanserv/rehab/rehab_main.html</a> | Direct                           | X<br>(Behavioral Health is not specifically excluded from participation, Coverage / network may vary by employer) | X                             | X                                | N/A                           | N/A                                      |
| FOCUS Healthcare Management (a wholly owned subsidiary of Concentra) | FOCUS  | <a href="http://www.focusedhealth.com/">http://www.focusedhealth.com/</a>   | WC                               | N/A   | X                             | N/A                              | X                             | N/A                                      |
| HealthSpring (aka Healthnet Management Co.)                          | HealthSpring Medicare Advantage  | <a href="http://www.healthspring.com">www.healthspring.com</a>  | Medicare Advantage               | X<br>(In-network for Behavioral Health)   | X                             | X                                | X                             | X  |
| Humana Health Care Plans   | Humana HMO, POS, PPO (Including Choice Care) (Includes CHA Prime Network for fully insured HMO, POS and PPO as of 1/1/2009)  | <a href="http://www.humana.com">www.humana.com</a>  | HMO, POS PPO                     | X<br>(Not in network. Humana uses Capitated)  | X                             | X                                | X                             | X  |
|  | Humana Gold Choice Medicare Advantage PFFS (No provider networks or contracts. Members can visit any doctor, specialist or facility who accepts Medicare and Humana's terms)   |   | Medicare Advantage (Contracted)  | X<br>(Not in network. Humana uses Capitated)  | X                             | X                                | X                             | X  |
|  | STH NOT IN HUMANA CHOICE POS (CPOS)  |   | Medicare Private Fee For Service | X<br>(In-network for Behavioral Health)   | X                             | X                                | X                             | X  |
| KY Medicaid  | All KY Medicaid now goes through MCOs: WellCare of Kentucky, Coventry Cares of Kentucky, Humana Care Source, and Passport Health Plan. (In network for KY Medicaid but not for the MCOs. For services to be covered/paid, requires Out of Network Approval for any services for MCO Members) | <a href="http://kysos.ky.gov">http://kysos.ky.gov</a>   | POS / exchange                   |   |                               |                                  |                               |  |
|  |  |   | Medicaid                         |   |                               |                                  |                               |  |

| Plan Name                   | Products/Network/Payor Name   | Website | Plan Type                 | HOSPITALS                  |                               |                                  |  |
|-----------------------------|---|---------|---------------------------|----------------------------|-------------------------------|----------------------------------|--|
|                             |   |         |                           | Saint Thomas West Hospital | Saint Thomas Midtown Hospital | Saint Thomas Rutherford Hospital | Saint Thomas Hickman Hospital            |
| Kentucky Health Cooperative | Kentucky ACO for the Exchange that utilizes Coventry's commercial network which allows our facilities as a Payer provider through our Coventry contracts. |         | Kentucky exchange product | X                          | X                             | X                                | X  |
|                             |   |         |                           |                            |                               |                                  | Saint Thomas Hospital for Spinal Surgery |

| Plan Name  | Products/Network/Payor Name   | Website   | Plan Type   | HOSPITALS   |                                       |                                       |                               |  |
|--|---|---|---|---|---------------------------------------|---------------------------------------|-------------------------------|--|
|  |   |   |   | Saint Thomas West Hospital  | Saint Thomas Midtown Hospital         | Saint Thomas Rutherford Hospital      | Saint Thomas Hickman Hospital | Saint Thomas Hospital for Spinal Surgery |
| Mission Point Health Partners  | Network E (Mission Point Health Partners Narrow Network)  |   | Health Insurance Exchange / Marketplace                         | X   | X                                     | X                                     | X                             | X  |
|  | Network M (Mission Point Health Partners network for Self-Insured Accounts, including STHe employees) |   | ACO/Self-Insured  | X   | X                                     | X                                     | X                             | X  |
| MultiPlan (includes BCE Emergis / ProAmerica) (MultiPlan purchased PHCS and Beechstreet/Viant. Networks will remain separate until further notice) | MultiPlan, BCE Emergis, ProAmerica, Up and Up, Formost  | <a href="http://www.multiplan.com">www.multiplan.com</a>  | PPO   | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                                     | X                                     | X                             | X  |
| National Rural Electric Cooperative Association Group  | National Rural Electric Cooperative Association Group   | <a href="http://www.nreca.org/PublicPolicy/CooperativeBusinessIssues/EmployeeBenefits.htm">http://www.nreca.org/PublicPolicy/CooperativeBusinessIssues/EmployeeBenefits.htm</a> | Direct  | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | N/A                                   | N/A                                   | N/A                           | N/A                                      |
| Nexcaliber (fka Associated Administrators Group, Inc. (AAGI))  | Nexcaliber (fka Associated Administrators Group, Inc. (AAGI))   | <a href="http://www.nexcaliber.com">www.nexcaliber.com</a>  | PPO   | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | N/A                                   | N/A                                   | N/A                           | N/A                                      |
| NovaNet  | Nova Net  | <a href="http://www.novanet.com">www.novanet.com</a>  | PPO   | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                                     | X                                     | X                             | X  |
| OccuComp (Only STHS Outpatient Rehabilitation Services)  | OccuComp  | <a href="http://www.occucomp.com">www.occucomp.com</a>  | WC  | X<br>(Only Outpatient Rehab Services)   | X<br>(Only Outpatient Rehab Services) | X<br>(Only Outpatient Rehab Services) | N/A                           | N/A                                      |
| Odyssey Healthcare   | Odyssey Healthcare  | <a href="http://www.odysseyhealth.com/">http://www.odysseyhealth.com/</a>   | Hospice (inpatient services for Medicare and Medicaid Patients) | X   | X                                     | X                                     | N/A                           | N/A                                      |
| Prime Health (formerly known as Comp Plus)   | Prime Health (formerly known as CompPlus) Workers Compensation  | <a href="http://primehealthservices.com">primehealthservices.com</a>  | WC  | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                                     | X                                     | X                             | X  |

| Plan Name  | Products/Network/Payer Name   | Website      | Plan Type                                | HOSPITALS   |                               |                                  |                               |  |
|--|---|--------------|--|---|-------------------------------|----------------------------------|-------------------------------|--|
|  |   |              |  | Saint Thomas West Hospital  | Saint Thomas Midtown Hospital | Saint Thomas Rutherford Hospital | Saint Thomas Hickman Hospital | Saint Thomas Hospital for Spinal Surgery |
|  | Tier I Commercial   |              | PPO                                      | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
|  | Tier II Commercial  |              | PPO                                      | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
| Private Healthcare Systems, Ltd.<br>(Purchased by MultiPlan. Networks will remain separate until further notice) | Private Healthcare Systems (PHCS)   | www.phcs.com | PPO & PPO/POS                            | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
| Tricare for Life<br>(No contract required)   | Tricare for Life  |              | Medicare Supplement for retired military | X<br>(in-network for Behavioral Health)   | X                             | X                                | X                             | X  |
| TRICARE North (HealthNet Federal Services)   | TRICARE Standard, TRICARE Prime, TRICARE Prime Remote, TRICARE Extra, TRICARE Reserve Select                              |              | TRICARE                                  | X<br>(in-network for Behavioral Health)   | X                             | X                                | X                             | N/A                                      |
| TRICARE South (Humana Military)  | TRICARE Standard, TRICARE Prime, TRICARE Prime Remote, TRICARE Extra, TRICARE Reserve Select                              |              | TRICARE                                  | X<br>(in-network for Behavioral Health)   | X                             | X                                | X                             | X  |
| United Behavioral Health (UBH)   | United Behavioral Health (currently used by United Healthcare)  |              | Behavioral Health Network                | X<br>(in-network for Behavioral Health for geriatric services)  | N/A                           | N/A                              | N/A                           | N/A                                      |
| United Healthcare  | United Healthcare: Choice PPO, Choice Plus PPO, Select POS, Select Plus POS, Options PPO, Definity HRAs and HSAs and GEHA |              | HMO, PPO, POS                            | X<br>(in-network for Behavioral Health for geriatric services)  | X                             | X                                | X                             | X  |
|  | Secure Horizons (Not United Healthcare Medicare Complete)   |              | Medicare Advantage                       | X<br>(in-network for Behavioral Health for geriatric services)  | X                             | X                                | X                             | X  |
| USA Managed Care Organization  | PPO: Includes USA H&W and USA WIN<br>(PPO includes Tennessee Healthcare Group Health)                                     |              | PPO                                      | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                             | X                                | X                             | X  |

| Plan Name                                    | Products/Network/Payor Name   | Website   | Plan Type          | HOSPITALS   |                               |                                  |                               |  |
|--|---|---|--------------------|---|-------------------------------|----------------------------------|-------------------------------|--|
|  |   |   |                    | Saint Thomas West Hospital  | Saint Thomas Midtown Hospital | Saint Thomas Rutherford Hospital | Saint Thomas Hickman Hospital | Saint Thomas Hospital for Spinal Surgery |
|  | EPO: Includes USA SPAA and USA WIN SPAA (EPO includes Tennessee Healthcare Work Comp) (As of 9/20/2006, Tennessee Healthcare began accessing USA MCO with the exception of State of TN Public Employees (Work Comp) which will remain with Prime Health through 2007) |   | EPO                | X<br>(Behavioral Health is not specifically excluded from participation. Coverage / network may vary by employer) | X                             | X                                | X                             | X  |
| VHAN (Vanderbilt Health Affiliated Networks) | Vanderbilt Health Affiliated Networks   | <a href="http://hr.vanderbilt.edu/benefits/vanderbilt-affiliates/">http://hr.vanderbilt.edu/benefits/vanderbilt-affiliates/</a> | PPO                | N/A   | X                             | X                                | N/A                           | N/A                                      |
| Wellcare (fka Windsor HealthCare)            | Windsor HealthCare Medicare Advantage   |   | Medicare Advantage | X<br>(Behavioral Health. Contracted directly with Windsor.)   | X                             | X                                | X                             | X  |



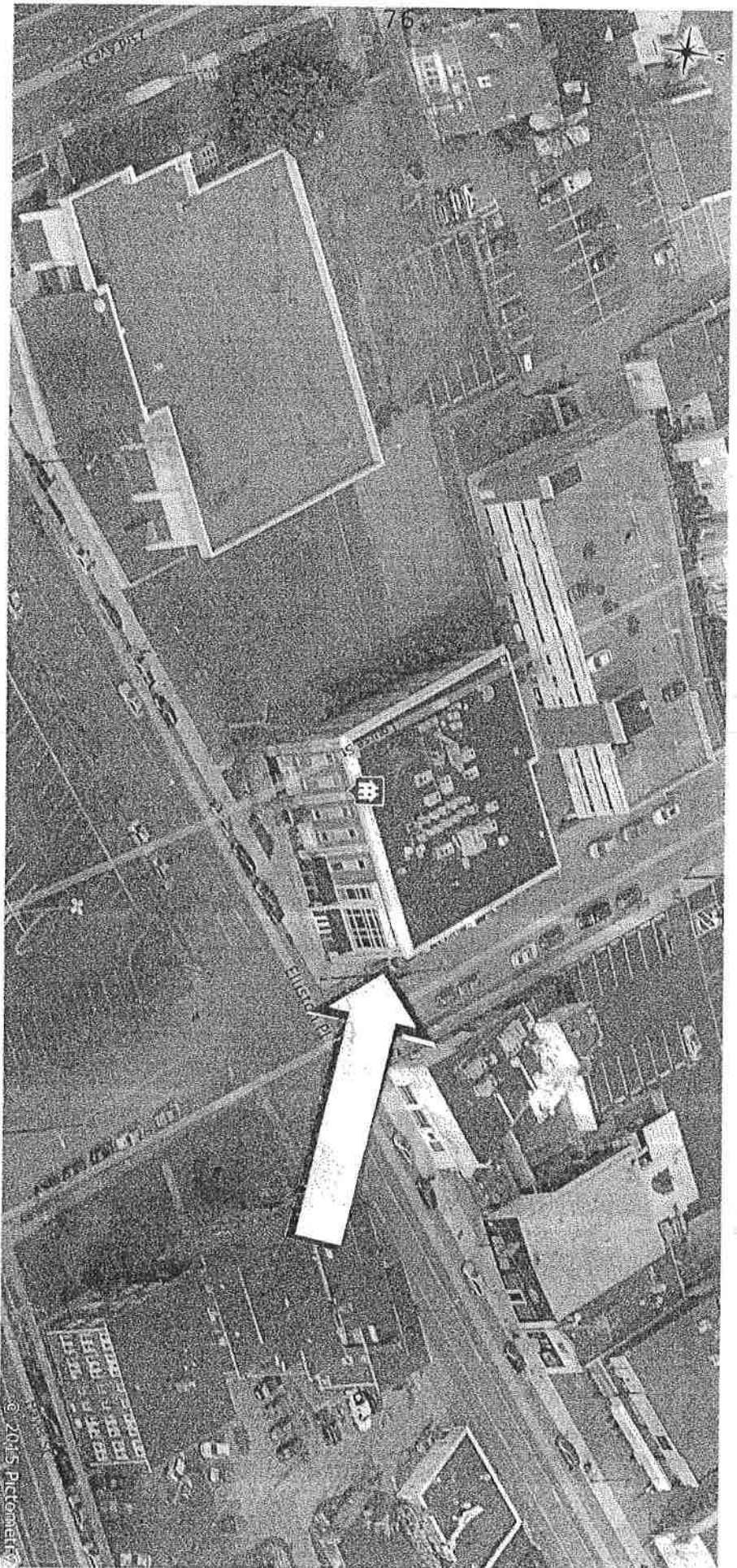
**Attachment B.II.E.3**  
**Clinical Applications**

| CPT Code | Description of Procedure              |
|----------|---------------------------------------|
| 70551    | MRI BRAIN; WO CONTRAST                |
| 70552    | MRI BRAIN; W CONTRAST                 |
| 70553    | MRI BRAIN WO/W CONTRAST               |
| 71550    | MRI CHEST                             |
| 71552    | MRI CHEST WO/W CONTRAST               |
| 72141    | MRI SPINAL CANAL CERV; WO CONTRAST    |
| 72142    | MRI SPINAL CANAL CERV; W/CONTRAST     |
| 72146    | MRI SPINAL CANAL THORAC WO CONTRAST   |
| 72147    | MRI SPINAL CANAL THORAC; W CONTRAST   |
| 72148    | MRI SPINAL CANAL LUMB; WO CONTRAST    |
| 72149    | MRI SPINAL CANAL LUMB; W CONTRAST     |
| 72156    | MRI SPINAL WO THEN W CONTRAST; CERV   |
| 72157    | MRI SPINAL WO THEN W CONTRAST; THORAC |
| 72158    | MRI SPINAL WO THEN W CONTRAST; LUMB   |
| 72197    | MRI PELVIS WO/W CONTRAST              |
| 73221    | MRI UPPER JOINT; UPPER EXTREMITY      |
| 73721    | MRI ANY JOINT; LOWER EXTREMITY        |

**Attachment B.III.A.**

**Plot Plan**

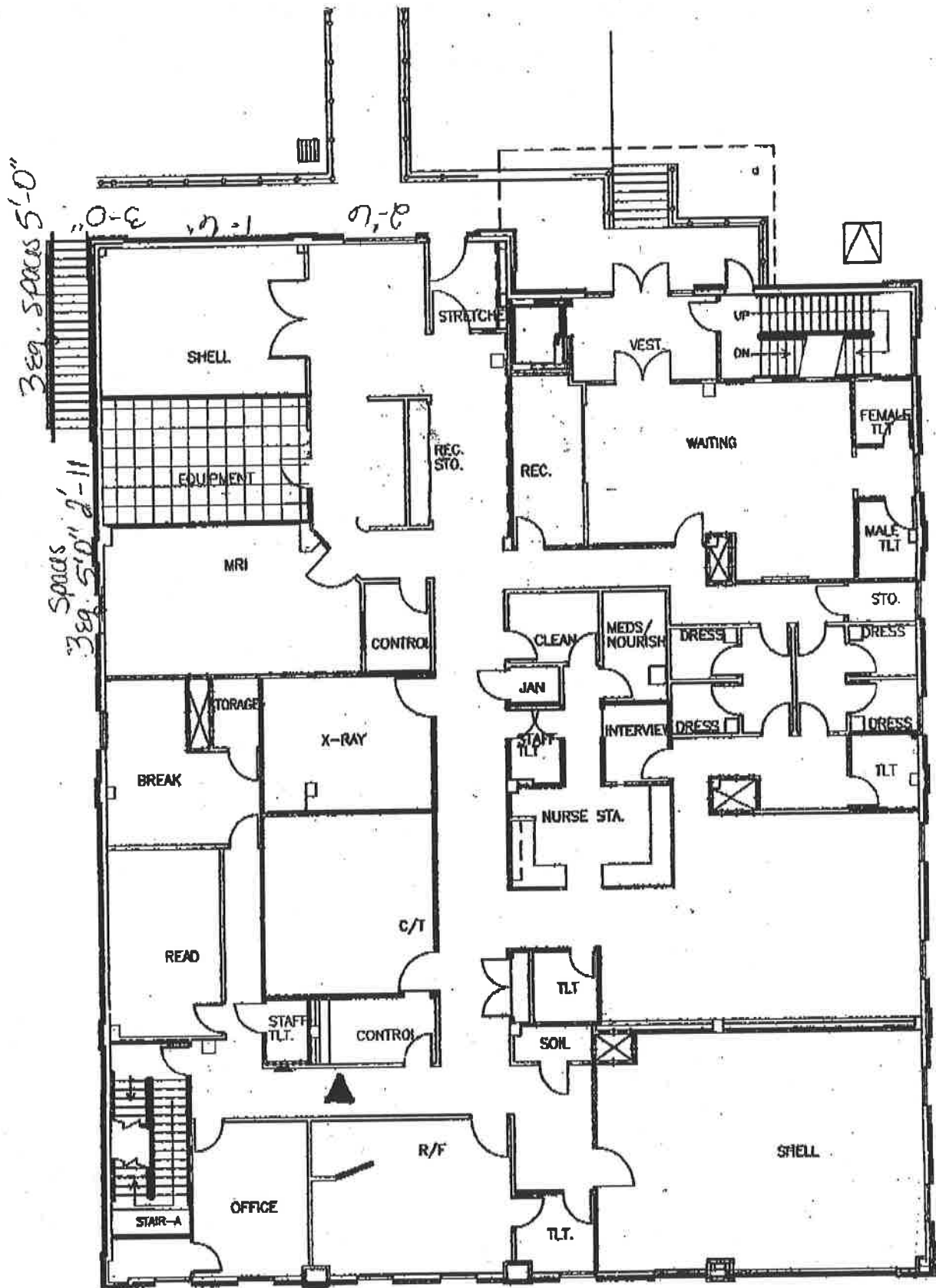
# Howell Allen Clinic MRI



03/21/2015



**Attachment B.IV.**  
**Floor Plans**



## LEGEND

YOU ARE HERE

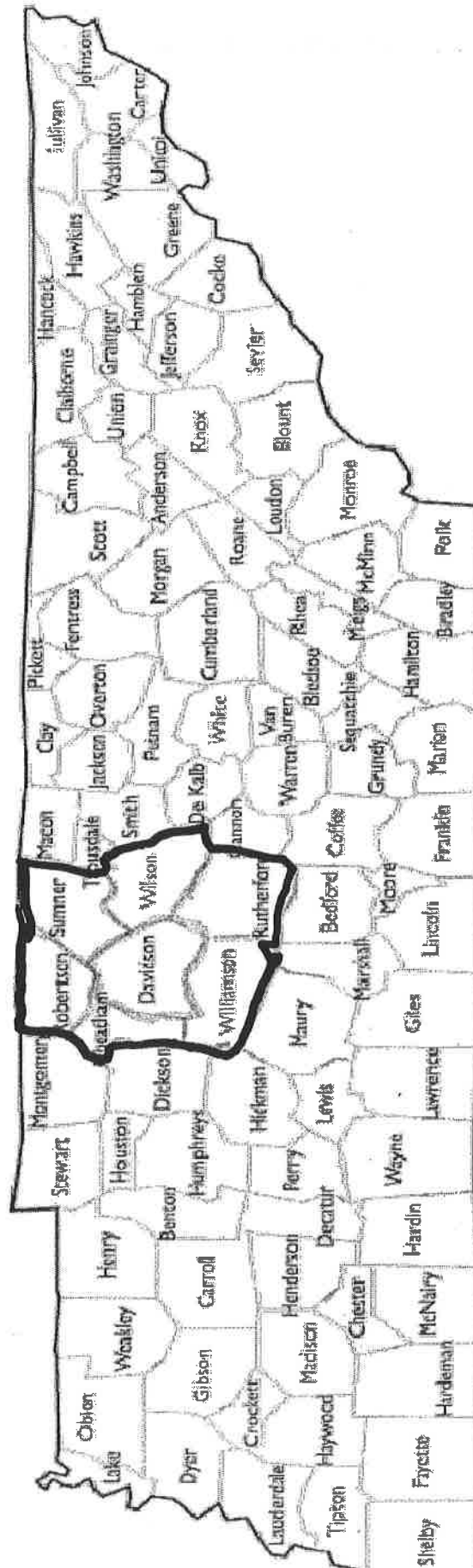
EXIT

EXIT

FIRE

**August 31, 2015****9:48 am****Section C: General Criteria for Certificate of Need – Need.3****Service Area Map**





**August 25, 2015****3:48 pm****Supplemental Attachment - Section C, Economic Feasibility, Item II - Funding****Revised Letter from Interim CFO**

**August 25, 2015****3:48 pm**

August 25, 2015

Ms. Melanie Hill, Executive Director  
Tennessee Health Services and Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

RE: Certificate of Need Application – Howell Allen Clinic

Dear Ms. Hill,

Saint Thomas Health has a centralized cash management program for managing and investing operating funds for all Saint Thomas Health hospitals and clinics, including Howell Allen Clinic. This letter is to confirm Saint Thomas Health has available more than sufficient resources to fund the projected CON cost of \$2.2 million required to acquire the MRI and initiate MRI services in association with the acquisition of Howell Allen Clinic.

Saint Thomas Health will be funding this \$2.2 million acquisition of the Howell Allen MRI machine from cash reserves. As evidence of Saint Thomas Health's ability to provide the necessary capital, the following information is offered.

1. Ascension Health, the parent company of Saint Thomas Health, had \$618,418,000 in cash and cash equivalents as of June 30, 2014. Ascension Health had \$15,327,255,000 in long-term investments as of June 30, 2014.
2. Saint Thomas Health had a current ratio of 1.5 as of June 30, 2014.
3. Ascension Health has a current rating of Aa2, Aa2/VMIG 1, and Aa2/P-1, subordinated debt ratings of Aa3 and Aa3/VMIG 1, and commercial paper rating of P-1 by Moody's Investor Service.

Thank you for your attention to this matter.

Sincerely,

Lisa Davis

Interim Chief Financial Officer

102 Woodmont Blvd., Suite 800  
Woodmont Centre  
Nashville, TN 37205  
SaintThomasHealth.com

## Section C: Economic Feasibility - 4

### Historical and Projected Data Chart

## HISTORICAL DATA CHART (Saint Thomas)

Give information for the last three (3) years for which complete data are available for the facility or agency. The fiscal year begins in July.

|  | Year<br>2014           | Year<br>2013           | Year<br>2012           |
|--|------------------------|------------------------|------------------------|
| A. Utilization Data (Procedures Performed)                       | NA                     | NA                     | NA                     |
| B. Revenue from Services to Patients                             |                        |                        |                        |
| 1. Inpatient Services  | \$2,443,243,000        | \$2,424,787,000        | \$2,220,562,000        |
| 2. Outpatient Services   | 1,798,026,000 *        | 1,636,087,000 *        | 1,551,831,000 *        |
| 3. Emergency Services  |                        |                        |                        |
| 4. Other Operating Revenue<br>(Specify) _____                    | 94,846,000             | 100,610,000            | 101,037,000            |
| <b>Gross Operating Revenue</b>                                   | <b>\$4,336,115,000</b> | <b>\$4,161,484,000</b> | <b>\$3,873,430,000</b> |
| C. Deductions from Gross Operating Revenue                       |                        |                        |                        |
| 1. Contractual Adjustments                                       | 2,830,061,000          | 2,651,974,000          | 2,366,233,000          |
| 2. Provision for Charity Care                                    | 238,974,000            | 251,784,000            | 241,958,000            |
| 3. Provisions for Bad Debt                                       | **                     | **                     | **                     |
| <b>Total Deductions</b>  | <b>\$3,069,035,000</b> | <b>\$2,903,758,000</b> | <b>\$2,608,191,000</b> |
| <b>NET OPERATING REVENUE</b>                                     | <b>\$1,267,080,000</b> | <b>\$1,257,726,000</b> | <b>\$1,265,239,000</b> |
| D. Operating Expenses  |                        |                        |                        |
| 1. Salaries and Wages  | 481,190,000            | 509,971,000            | 517,858,000            |
| 2. Physician's Salaries and Wages                                |                        |                        |                        |
| 3. Supplies  | 230,190,000            | 232,769,000            | 231,069,000            |
| 4. Taxes   |                        |                        |                        |
| 5. Depreciation  |                        |                        |                        |
| 6. Rent  |                        |                        |                        |
| 7. Interest other than Capital                                   |                        |                        |                        |
| 8. Management Fees:  |                        |                        |                        |
| a. Fees to Affiliates  |                        |                        |                        |
| b. Fees to Non-Affiliates  |                        |                        |                        |
| 9. Other Expenses (Specify) _____                                | 449,495,000            | 453,186,000            | 450,177,000            |
| <b>Total Operating Expenses</b>                                  | <b>\$1,160,875,000</b> | <b>\$1,195,926,000</b> | <b>\$1,199,104,000</b> |
| E. Other Revenue (Expenses) – Net (Specify)                      | 70,021,000             | 40,849,000             | 31,209,000             |
| <b>NET OPERATING INCOME (LOSS)</b>                               | <b>\$176,226,000</b>   | <b>\$102,649,000</b>   | <b>\$ 97,344,000</b>   |
| f. Capital Expenditures  |                        |                        |                        |
| 1. Retirement of Principal                                       | 6,976,000              | 3,712,000              | 3,564,000              |
| 2. Interest  |                        |                        |                        |
| <b>Total Capital Expenditures</b>                                | <b>\$ 6,976,000</b>    | <b>\$ 3,712,000</b>    | <b>\$ 3,564,000</b>    |
| <b>NET OPERATING INCOME (LOSS)<br/>LESS CAPITAL EXPENDITURES</b> | <b>\$ 169,250,000</b>  | <b>\$ 98,937,000</b>   | <b>\$ 93,780,000</b>   |

\* Included in Outpatient Services

\*\* Included in Charity Care

## HISTORICAL DATA CHART (MRI Only)

Give information for the last three (3) years for which complete data are available for the facility or agency. The fiscal year for the prior operator of the MRI begins in January.

|   | Year<br>2014       | Year<br>2013       | Year<br>2012        |
|---|--------------------|--------------------|---------------------|
| A. Utilization Data (Procedures Performed)    | 4,104              | 3,906              | 4,258               |
| B. Revenue from Services to Patients          |                    |                    |                     |
| 1. Inpatient Services                         |                    |                    |                     |
| 2. Outpatient Services                        | \$6,725,391        | \$6,509,843        | \$6,873,399         |
| 3. Emergency Services                         |                    |                    |                     |
| 4. Other Operating Revenue<br>(Specify) _____ |                    |                    |                     |
| <b>Gross Operating Revenue</b>                | <b>\$6,725,391</b> | <b>\$6,509,843</b> | <b>\$6,873,399</b>  |
| C. Deductions from Gross Operating Revenue    |                    |                    |                     |
| 1. Contractual Adjustments                    | 4,473,103          | 4,172,280          | 4,325,775           |
| 2. Provision for Charity Care                 |                    |                    |                     |
| 3. Provisions for Bad Debt                    |                    |                    |                     |
| <b>Total Deductions</b>                       | <b>\$4,473,103</b> | <b>\$4,172,280</b> | <b>\$4,325,775</b>  |
| <b>NET OPERATING REVENUE</b>                  | <b>2,252,288</b>   | <b>2,337,563</b>   | <b>2,547,624</b>    |
| D. Operating Expenses                         |                    |                    |                     |
| 1. Salaries and Wages                         | 359,560            | 369,226            | 397,704             |
| 2. Physician's Salaries and Wages             |                    |                    |                     |
| 3. Supplies                                   | 137,185            | 141,222            | 112,559             |
| 4. Taxes                                      |                    |                    |                     |
| 5. Depreciation                               |                    |                    |                     |
| 6. Rent                                       |                    |                    |                     |
| 7. Interest other than Capital                |                    |                    |                     |
| 8. Management Fees:                           |                    |                    |                     |
| a. Fees to Affiliates                         |                    |                    |                     |
| b. Fees to Non-Affiliates                     |                    |                    |                     |
| 9. Other Expenses (Specify) _____             | 933,017            | 903,410            | 1,031,867           |
| <b>Total Operating Expenses</b>               | <b>\$1,429,762</b> | <b>\$1,413,858</b> | <b>\$1,542,130</b>  |
| E. Other Revenue (Expenses) – Net (Specify)   |                    |                    |                     |
| <b>NET OPERATING INCOME (LOSS)</b>            | <b>822,526</b>     | <b>923,705</b>     | <b>1,005,494</b>    |
| f. Capital Expenditures                       |                    |                    |                     |
| 1. Retirement of Principal                    |                    |                    |                     |
| 2. Interest                                   |                    |                    |                     |
| <b>Total Capital Expenditures</b>             |                    |                    |                     |
| <b>NET OPERATING INCOME (LOSS)</b>            |                    |                    |                     |
| <b>LESS CAPITAL EXPENDITURES</b>              | <b>\$ 822,526</b>  | <b>\$ 923,705</b>  | <b>\$ 1,005,494</b> |

## PROJECTED DATA CHART (MRI)

**SUPPLEMENTAL #2****August 31, 2015****9:48 am**

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July (Month).

|   | Year 2016          | Year 2017          |
|---|--------------------|--------------------|
| A. Utilization Data (Procedures Performed)    | 4,104              | 4,104              |
| B. Revenue from Services to Patients          |                    |                    |
| 1. Inpatient Services                         |                    |                    |
| 2. Outpatient Services                        | \$7,134,968        | \$7,349,017        |
| 3. Emergency Services                         |                    |                    |
| 4. Other Operating Revenue<br>(Specify) _____ |                    |                    |
| <b>Gross Operating Revenue</b>                | <b>\$7,134,968</b> | <b>\$7,349,017</b> |
| C. Deductions from Gross Operating Revenue    |                    |                    |
| 1. Contractual Adjustments                    | 4,745,515          | 4,887,880          |
| 2. Provision for Charity Care                 |                    |                    |
| 3. Provisions for Bad Debt                    |                    |                    |
| <b>Total Deductions</b>                       | <b>\$4,745,515</b> | <b>\$4,887,880</b> |
| <b>NET OPERATING REVENUE</b>                  | <b>\$2,389,452</b> | <b>\$2,461,136</b> |
| D. Operating Expenses                         |                    |                    |
| 1. Salaries and Wages                         | 195,000            | 200,850            |
| 2. Physician's Salaries and Wages             |                    |                    |
| 3. Supplies                                   | 145,540            | 149,906            |
| 4. Taxes                                      |                    |                    |
| 5. Depreciation                               |                    |                    |
| 6. Rent                                       | 122,021            | 125,681            |
| 7. Interest other than Capital                |                    |                    |
| 8. Management Fees:                           |                    |                    |
| a. Fees to Affiliates                         |                    |                    |
| b. Fees to Non-Affiliates                     |                    |                    |
| 9. Other Expenses (Specify) _____             | 735,268            | 757,326            |
| <b>Total Operating Expenses</b>               | <b>\$1,197,829</b> | <b>\$1,233,763</b> |
| E. Other Revenue (Expenses) – Net (Specify)   |                    |                    |
| <b>NET OPERATING INCOME (LOSS)</b>            | <b>\$1,191,623</b> | <b>\$1,277,373</b> |
| F. Capital Expenditures                       |                    |                    |
| 1. Retirement of Principal                    |                    |                    |
| 2. Interest                                   |                    |                    |
| <b>Total Capital Expenditures</b>             |                    |                    |
| <b>NET OPERATING INCOME (LOSS)</b>            |                    |                    |
| <b>LESS CAPITAL EXPENDITURES</b>              | <b>\$1,191,623</b> | <b>\$1,277,373</b> |

Revised Projected Data Chart



**Attachment C.7(b)**  
**American College of Radiology Certification**



# American College of Radiology

Magnetic Resonance Imaging Services of

**Howell Allen Clinic**

**2214 Elliston Place  
Suite 200**

**Nashville, Tennessee 37203**

were surveyed by the  
Committee on MRI Accreditation of the  
Commission on Quality and Safety

The following magnet was approved

**General Electric LX 2004**

For

**Head, Spine**

Accredited from:

**April 17, 2014 through April 17, 2017**

A handwritten signature in cursive script, reading "Anthony J. Sculacci, M.D.", positioned above a horizontal line.

CHAIRMAN, COMMITTEE ON MRI ACCREDITATION

A handwritten signature in cursive script, reading "Allen L. Blumberg, M.D.", positioned above a horizontal line.

PRESIDENT, AMERICAN COLLEGE OF RADIOLOGY

**Affidavit**

## AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF

DAVIDSONFahad Tahir

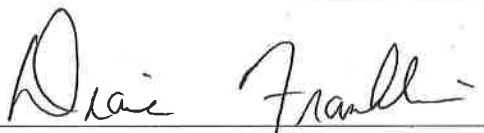
, being first duly sworn, says that he/she is the applicant named in this application or his/her lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Tennessee Health Services and Development Agency and T.C.A. § 68-11-1601, *et seq.*, and that the responses to questions in this application or any other questions deemed appropriate by the Tennessee Health Services and Development Agency are true and complete.



CEO

Signature/Title

Sworn to and subscribed before me this the 13 day of August, 2015, a Notary Public in and for the County of DAVIDSON, State of Tennessee.



NOTARY PUBLIC

My Commission expires

1/9/2018

HF-0056

Revised 7/02 - All forms prior to this date are obsolete



**Section C: Economic Feasibility – 10**  
**Applicant's Balance Sheet and Income Statement**

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CONSOLIDATED FINANCIAL  
STATEMENTS AND SUPPLEMENTARY  
INFORMATION

Ascension Health Alliance  
d/b/a Ascension

Years Ended June 30, 2014 and 2013  
With Reports of Independent Auditors

## Ascension

Consolidated Financial Statements  
and Supplementary Information

Years Ended June 30, 2014 and 2013

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The Plaza in Clayton  
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ey.com

## Report of Independent Auditors

The Board of Directors  
Ascension Health Alliance d/b/a Ascension

We have audited the accompanying consolidated financial statements of Ascension Health Alliance d/b/a Ascension, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health d/b/a Ascension at June 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

September 11, 2014

## Ascension

Consolidated Balance Sheets  
(Dollars in Thousands)

|  | June 30,          |                   |
|--|-------------------|-------------------|
|  | 2014              | 2013              |
| <b>Assets</b>  |                   |                   |
| Current assets:  |                   |                   |
| Cash and cash equivalents  | \$ 618,418        | \$ 753,555        |
| Short-term investments   | 109,081           | 113,825           |
| Accounts receivable, less allowance for doubtful accounts<br>(\$1,260,407 and \$1,297,609 at June 30, 2014 and 2013, respectively) | 2,419,616         | 2,292,521         |
| Inventories  | 332,739           | 297,233           |
| Due from brokers (see Notes 4 and 5)   | 343,757           | 178,380           |
| Estimated third-party payor settlements  | 236,559           | 119,379           |
| Other (see Notes 4 and 5)  | 562,367           | 1,026,397         |
| Total current assets   | 4,622,537         | 4,781,290         |
| Long-term investments (see Notes 4 and 5)  | 15,327,255        | 14,156,447        |
| Property and equipment, net  | 8,410,629         | 8,274,854         |
| Other assets:  |                   |                   |
| Investment in unconsolidated entities  | 649,888           | 628,772           |
| Capitalized software costs, net  | 778,705           | 718,122           |
| Other  | 1,509,849         | 1,487,886         |
| Total other assets   | 2,938,442         | 2,834,780         |
| <br>Total assets   | <br>\$ 31,298,863 | <br>\$ 30,047,371 |

|  | June 30,      |               |
|--|---------------|---------------|
|  | 2014          | 2013          |
| <b>Liabilities and net assets</b>                              |               |               |
| Current liabilities:   |               |               |
| Current portion of long-term debt                              | \$ 91,532     | \$ 89,869     |
| Long-term debt subject to short-term remarketing arrangements* | 1,345,530     | 1,187,125     |
| Accounts payable and accrued liabilities                       | 2,293,663     | 2,278,242     |
| Estimated third-party payor settlements                        | 450,054       | 455,432       |
| Due to brokers (see Notes 4 and 5)                             | 332,169       | 493,420       |
| Current portion of self-insurance liabilities                  | 226,856       | 210,115       |
| Other (see Notes 4 and 5)                                      | 274,645       | 639,566       |
| Total current liabilities                                      | 5,014,449     | 5,353,769     |
| Noncurrent liabilities:  |               |               |
| Long-term debt (senior and subordinated)                       | 4,994,913     | 5,278,304     |
| Self-insurance liabilities                                     | 541,859       | 553,706       |
| Pension and other postretirement liabilities                   | 428,679       | 554,368       |
| Other (see Notes 4 and 5)                                      | 1,343,826     | 1,178,597     |
| Total noncurrent liabilities                                   | 7,309,277     | 7,564,975     |
| Total liabilities  | 12,323,726    | 12,918,744    |
| Net assets:  |               |               |
| Unrestricted   |               |               |
| Controlling interest   | 16,736,190    | 14,986,302    |
| Noncontrolling interests                                       | 1,656,106     | 1,592,356     |
| Unrestricted net assets  | 18,392,296    | 16,578,658    |
| Temporarily restricted   | 391,226       | 375,054       |
| Permanently restricted   | 191,615       | 174,915       |
| Total net assets   | 18,975,137    | 17,128,627    |
| Total liabilities and net assets                               | \$ 31,298,863 | \$ 30,047,371 |

\*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2015. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, drawing upon the \$1 billion line of credit, and is using commercial paper. The commercial paper program is supported by the \$1 billion line of credit.

*The accompanying notes are an integral part of the consolidated financial statements.*

## Ascension

Consolidated Statements of Operations  
and Changes in Net Assets  
(Dollars in Thousands)

|  | Year Ended June 30, |               |
|--|---------------------|---------------|
|  | 2014                | 2013          |
| Operating revenue:   |                     |               |
| Net patient service revenue  | \$ 19,193,307       | \$ 16,326,684 |
| Less provision for doubtful accounts   | 1,273,354           | 1,124,409     |
| Net patient service revenue, less provision<br>for doubtful accounts   | 17,919,953          | 15,202,275    |
| Other revenue  | 2,229,767           | 1,334,623     |
| Total operating revenue  | 20,149,720          | 16,536,898    |
| Operating expenses:  |                     |               |
| Salaries and wages   | 8,202,294           | 6,974,951     |
| Employee benefits  | 1,747,739           | 1,528,119     |
| Purchased services   | 1,210,276           | 955,440       |
| Professional fees  | 1,279,459           | 1,093,446     |
| Supplies   | 2,822,102           | 2,334,427     |
| Insurance  | 128,535             | 109,178       |
| Interest   | 194,616             | 150,877       |
| Depreciation and amortization  | 899,389             | 730,757       |
| Other  | 2,901,859           | 2,140,182     |
| Total operating expenses before impairment,<br>restructuring and nonrecurring losses, net  | 19,386,269          | 16,017,377    |
| Income from operations before self-insurance trust fund investment<br>return and impairment, restructuring, and nonrecurring losses, net | 763,451             | 519,521       |
| Self-insurance trust fund investment return  | 66,174              | 34,985        |
| Impairment, restructuring and nonrecurring losses, net   | (223,834)           | (103,344)     |
| Income from operations   | 605,791             | 451,162       |
| Nonoperating gains (losses):   |                     |               |
| Investment return  | 1,515,819           | 736,300       |
| Loss on extinguishment of debt   | (1,605)             | (4,079)       |
| (Loss) gain on interest rate swaps   | (6,020)             | 53,746        |
| Income from unconsolidated entities  | 5,539               | 8,544         |
| Contributions from business combinations, net  | —                   | 2,021,963     |
| Other  | (63,119)            | (69,524)      |
| Total nonoperating gains, net  | 1,450,614           | 2,746,950     |
| Excess of revenues and gains over expenses and losses  | 2,056,405           | 3,198,112     |
| Less noncontrolling interests  | 245,893             | 131,184       |
| Excess of revenues and gains over expenses<br>and losses attributable to controlling interest  | 1,810,512           | 3,066,928     |

*Continued on next page.*

## Ascension

Consolidated Statements of Operations  
and Changes in Net Assets (continued)

(Dollars in Thousands)

|  | Year Ended June 30, |               |
|--|---------------------|---------------|
|  | 2014                | 2013          |
| Unrestricted net assets, controlling interest:   |                     |               |
| Excess of revenues and gains over expenses and losses  | \$ 1,810,512        | \$ 3,066,928  |
| Transfers to sponsors and other affiliates, net  | (6,566)             | (9,152)       |
| Contributed net assets   | (1,534)             | (1,050)       |
| Membership interest changes, net   | 45,255              | —             |
| Net assets released from restrictions for property acquisitions  | 62,537              | 65,706        |
| Pension and other postretirement liability adjustments   | 23,990              | 76,483        |
| Change in unconsolidated entities' net assets  | 4,571               | 23,295        |
| Other  | (24,514)            | 4,507         |
| Increase in unrestricted net assets, controlling interest,<br>before loss from discontinued operations | 1,914,251           | 3,226,717     |
| Loss from discontinued operations  | (164,363)           | (76,829)      |
| Increase in unrestricted net assets, controlling interest  | 1,749,888           | 3,149,888     |
| Unrestricted net assets, noncontrolling interests:   |                     |               |
| Excess of revenues and gains over expenses and losses  | 245,893             | 131,184       |
| Distributions of capital   | (531,159)           | (829,989)     |
| Contributions of capital   | 401,546             | 1,579,187     |
| Membership interest changes, net   | (52,530)            | —             |
| Contributions from business combinations   | —                   | 64,738        |
| Increase in unrestricted net assets, noncontrolling interests  | 63,750              | 945,120       |
| Temporarily restricted net assets, controlling interest:   |                     |               |
| Contributions and grants   | 99,885              | 88,841        |
| Investment return  | 31,292              | 17,232        |
| Net assets released from restrictions  | (115,353)           | (108,193)     |
| Contributions from business combinations   | —                   | 44,201        |
| Other  | 348                 | 1,088         |
| Increase in temporarily restricted net assets, controlling interest                                    | 16,172              | 43,169        |
| Permanently restricted net assets, controlling interest:   |                     |               |
| Contributions  | 10,405              | 2,664         |
| Investment return  | 7,942               | 1,598         |
| Contributions from business combinations   | —                   | 67,846        |
| Other  | (1,647)             | (368)         |
| Increase in permanently restricted net assets, controlling interest                                    | 16,700              | 71,740        |
| Increase in net assets   | 1,846,510           | 4,209,917     |
| Net assets, beginning of year  | 17,128,627          | 12,918,710    |
| Net assets, end of year  | \$ 18,975,137       | \$ 17,128,627 |

The accompanying notes are an integral part of the consolidated financial statements.

## Ascension

**Consolidated Statements of Cash Flows**  
*(Dollars in Thousands)*

|  | <b>Year Ended June 30,</b> |              |
|--|----------------------------|--------------|
|  | <b>2014</b>                | <b>2013</b>  |
| <b>Operating activities</b>  |                            |              |
| Increase in net assets   | \$ 1,846,510               | \$ 4,209,917 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities:  |                            |              |
| Depreciation and amortization  | 899,389                    | 730,757      |
| Amortization of bond premiums  | (22,497)                   | (13,948)     |
| Loss on extinguishment of debt   | 1,605                      | 4,079        |
| Provision for doubtful accounts  | 1,275,961                  | 1,128,717    |
| Pension and other postretirement liability adjustments   | (23,990)                   | (76,483)     |
| Contributed net assets   | 1,534                      | 1,050        |
| Contributions from business combinations   | —                          | (1,742,900)  |
| Interest, dividends, and net (gains) losses on investments   | (1,621,227)                | (790,115)    |
| Change in market value of interest rate swaps  | 1,880                      | (61,349)     |
| Deferred gain on interest rate swaps   | (303)                      | (303)        |
| Gain on sale of assets, net  | (25,556)                   | (4,008)      |
| Impairment and nonrecurring expenses   | 30,353                     | 17,259       |
| Transfers to sponsor and other affiliates, net   | 6,566                      | 9,152        |
| Restricted contributions, investment return, and other   | (122,232)                  | (98,755)     |
| Other restricted activity  | 6,362                      | 15,965       |
| Nonoperating depreciation expense  | 234                        | 317          |
| (Increase) decrease in:  |                            |              |
| Short-term investments   | 4,744                      | 212,624      |
| Accounts receivable  | (1,393,667)                | (1,134,828)  |
| Inventories and other current assets   | 437,913                    | (213,753)    |
| Due from brokers   | (165,377)                  | 610,891      |
| Investments classified as trading  | 466,353                    | (959,888)    |
| Other assets   | (186,983)                  | (182,693)    |
| Increase (decrease) in:  |                            |              |
| Accounts payable and accrued liabilities   | (685)                      | (2,009)      |
| Estimated third-party payor settlements, net   | (124,475)                  | 30,604       |
| Due to brokers   | (161,251)                  | (387,193)    |
| Other current liabilities  | (357,167)                  | 91,435       |
| Self-insurance liabilities   | 4,894                      | (15,342)     |
| Other noncurrent liabilities   | 60,731                     | (153,420)    |
| Net cash provided by continuing operating activities   | 839,619                    | 1,225,780    |
| Net cash provided by (used in) and adjustments to reconcile change in net assets for discontinued operations, including write-down of assets | 126,554                    | (19,386)     |
| Net cash provided by operating activities  | 966,173                    | 1,206,394    |

*Continued on next page.*

## Ascension

**Consolidated Statements of Cash Flows (continued)**  
*(Dollars in Thousands)*

|   | <b>Year Ended June 30,</b> |                   |
|---|----------------------------|-------------------|
|   | <b>2014</b>                | <b>2013</b>       |
| <b>Investing activities</b>                                   |                            |                   |
| Property, equipment, and capitalized software additions, net  | \$ (1,102,680)             | \$ (871,203)      |
| Proceeds from sale of property and equipment                  | 15,594                     | 26,321            |
| Net cash used in investing activities                         | <u>(1,087,086)</u>         | <u>(844,882)</u>  |
| <b>Financing activities</b>                                   |                            |                   |
| Issuance of long-term debt                                    | 512,231                    | 1,228,995         |
| Repayment of long-term debt                                   | (606,502)                  | (1,235,850)       |
| (Increase) decrease in assets under bond indenture agreements | (17,506)                   | 20,577            |
| Transfers to sponsors and other affiliates, net               | (24,679)                   | (26,112)          |
| Restricted contributions, investment return, and other        | <u>122,232</u>             | <u>98,755</u>     |
| Net cash (used in) provided by financing activities           | <u>(14,224)</u>            | <u>86,365</u>     |
| Net (decrease) increase in cash and cash equivalents          | (135,137)                  | 447,877           |
| Cash and cash equivalents at beginning of year                | 753,555                    | 305,678           |
| Cash and cash equivalents at end of year                      | <u>\$ 618,418</u>          | <u>\$ 753,555</u> |

*The accompanying notes are an integral part of the consolidated financial statements.*

## Ascension

### Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2014

#### 1. Organization and Mission

##### Organizational Structure

Ascension Health Alliance, d/b/a Ascension (Ascension), is a Missouri nonprofit corporation formed on September 13, 2011. Ascension is the sole corporate member and parent organization of Ascension Health, a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Health Ministries, located in 23 of the United States and the District of Columbia.

Ascension serves as the member or shareholder of various subsidiaries as listed below:

- AH Holdings, LLC, d/b/a Ascension Holdings, LLC
- AHV Holding Company, LLC, d/b/a AV Holding Company
- Ascension Health
- Ascension Health Clinical Holdings, d/b/a Ascension Clinical Holdings
- Ascension Health Global Mission, d/b/a Ascension Global Mission
- Ascension Health Insurance, Ltd. (AHIL)
- Ascension Health – IS, Inc., d/b/a Ascension Information Services
- Ascension Health Resource and Supply Management Group, LLC d/b/a The Resource Group
- Ascension Health Leadership Academy, d/b/a Ascension Leadership Academy
- Ascension Health Ventures, d/b/a Ascension Ventures
- Ascension Investment Management, LLC (AIM)
- Ascension Alpha Fund, LLC, f/k/a CHIMCO Alpha Fund, LLC (Alpha Fund)
- Ascension Risk Services, LLC

Ascension and its member organizations are hereafter referred to collectively as the System.

Effective July 15, 2013, Ascension Health Leadership Academy, LLC, Ascension Health Global Mission and Ascension Health Clinical Holdings began doing business as Ascension Leadership Academy, Ascension Global Mission and Ascension Clinical Holdings, respectively. On July 17, 2013, AH Holdings, LLC began doing business as Ascension Holdings. Effective October 14, 2013, CHIMCO Alpha Fund, LLC was renamed Ascension Alpha Fund, LLC.



## Ascension

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Mission (continued)

Effective November 4, 2013, Ascension Health Ventures, LLC was renamed Ascension Ventures, LLC and AHV Holding Company, LLC began doing business as AV Holding Company. Effective December 12, 2013, Ascension Health – IS, Inc. began doing business as Ascension Information Services. Effective January 1, 2014, Catholic Healthcare Investment Management Company (CHIMCO) transferred all of its business and assets to AIM, a limited liability company wholly owned by Ascension and CHIMCO's successor in interest.

#### Sponsorship

Ascension is sponsored by Ascension Sponsor, a Public Juridic Person. The Participating Entities of Ascension Sponsor are the Daughters of Charity of St. Vincent de Paul, St. Louise Province; the Congregation of St. Joseph; the Congregation of the Sisters of St. Joseph of Carondelet; the Congregation of Alexian Brothers of the Immaculate Conception Province, Inc. – American Province; and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province. As more fully described in the Organizational Changes note, Marian Health System, which was previously sponsored by the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province, became part of Ascension Health on April 1, 2013.

#### Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing, and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

## Ascension

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***1. Organization and Mission (continued)**

- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and other community benefit programs. The cost of providing care to persons living in poverty and other community benefit programs is estimated by reducing charges forgone by a factor derived from the ratio of each entity's total operating expenses to the entity's billed charges for patient care.

Certain costs such as graduate medical education and certain other activities are excluded from total operating expenses for purposes of this computation.

The amount of traditional charity care provided, determined on the basis of cost, was \$580,606 and \$524,605 for the years ended June 30, 2014 and 2013, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

## Ascension

**Notes to Consolidated Financial Statements (continued)**  
*(Dollars in Thousands)*

**2. Significant Accounting Policies****Principles of Consolidation**

All corporations and other entities for which operating control is exercised by the System or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the System does not have operating control are recorded under the equity or cost method of accounting. Income from unconsolidated entities is included in consolidated excess of revenues and gains over expenses and losses in the accompanying Consolidated Statements of Operations and Changes in Net Assets as follows:

|                         | <b>Year Ended June 30,</b> |             |
|-------------------------|----------------------------|-------------|
|                         | <b>2014</b>                | <b>2013</b> |
| Other revenue           | \$ 83,317                  | \$ 105,173  |
| Nonoperating gains, net | 5,539                      | 8,544       |

**Use of Estimates**

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in the Fair Value Measurements note.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and interest-bearing deposits with original maturities of three months or less.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**2. Significant Accounting Policies (continued)****Short-Term Investments**

Short-term investments consist of investments with original maturities exceeding three months and up to one year.

**Inventories**

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value using first-in, first-out (FIFO) or a methodology that closely approximates FIFO.

**Long-Term Investments and Investment Return**

Investments, excluding investments in unconsolidated entities, are measured at fair value, are classified as trading securities, and include pooled short-term investment funds; U.S. government, state, municipal and agency obligations; corporate and foreign fixed income securities; asset-backed securities; and equity securities. Investments also include alternative investments and other investments which are valued based on the net asset value of the investments, as further discussed in the Fair Value Measurements note. Investments also include derivatives held by the Alpha Fund, also measured at fair value, as discussed in the Pooled Investment Fund note.

Long-term investments include assets limited as to use of approximately \$1,431,000 and \$1,311,000, at June 30, 2014 and 2013, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns consist of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment returns on investments, excluding returns of self-insurance trust funds, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets, unless the return is restricted by donor or law. Investment returns of self-insurance trust funds are reported as a separate component of income from operations in the Consolidated Statements of Operations and Changes in Net Assets.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)****Property and Equipment**

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. A summary of property and equipment at June 30, 2014 and 2013, is as follows:

|                                   | <b>June 30,</b>            |                            |
|-----------------------------------|----------------------------|----------------------------|
|                                   | <b>2014</b>                | <b>2013</b>                |
| Land and improvements             | \$ 880,352                 | \$ 822,885                 |
| Buildings and equipment           | <u>14,933,470</u>          | <u>14,427,322</u>          |
|                                   | <b>15,813,822</b>          | 15,250,207                 |
| Less accumulated depreciation     | <u>7,987,988</u>           | <u>7,436,307</u>           |
|                                   | <b>7,825,834</b>           | 7,813,900                  |
| Construction in progress          | <u>584,795</u>             | <u>460,954</u>             |
| Total property and equipment, net | <u><b>\$ 8,410,629</b></u> | <u><b>\$ 8,274,854</b></u> |

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2014 and 2013 was \$739,853 and \$620,177, respectively.

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$301,000.

## Ascension

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***2. Significant Accounting Policies (continued)****Intangible Assets**

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

Intangible assets are included in the Consolidated Balance Sheets as presented in the table that follows. Capitalized software costs in the table below include software in progress of \$125,451 and \$99,048 at June 30, 2014 and 2013, respectively:

|  | June 30,     |              |
|--|--------------|--------------|
|  | 2014         | 2013         |
| Capitalized software costs                           | \$ 1,557,302 | \$ 1,388,880 |
| Less accumulated amortization                        | 778,597      | 670,758      |
| Capitalized software costs, net                      | 778,705      | 718,122      |
| Goodwill   | 181,490      | 130,306      |
| Other, net   | 62,573       | 71,440       |
| Intangible assets included in other long-term assets | 244,063      | 201,746      |
| Total intangible assets, net                         | \$ 1,022,768 | \$ 919,868   |

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets in 2014 and 2013 was \$157,150 and \$108,633, respectively.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**2. Significant Accounting Policies (continued)**

The System is in the midst of a significant multi-year, System-wide enterprise resource planning project, including information technology and process standardization (Symphony), which is expected to continue through fiscal year 2016. The project is anticipated to result in a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout the System. Capitalized costs of Symphony were approximately \$320,000 and \$301,000 at June 30, 2014 and 2013, respectively, and are included in capitalized software costs in the preceding table. Certain costs of this project were also expensed. Beginning September 1, 2012, the software associated with Symphony was considered substantially complete and ready for its intended use and is amortized on a straight-line basis over its expected useful life. Accumulated amortization of Symphony was approximately \$55,000 and \$25,000 at June 30, 2014 and 2013, respectively. See the Impairment, Restructuring, and Nonrecurring Gains (Losses) discussion below for additional information about costs associated with Symphony.

**Noncontrolling Interests**

The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the System and therefore consolidated. Noncontrolling interests in the Consolidated Balance Sheets represent the portion of net assets owned by entities outside the System, for those entities in which the System's ownership interest is less than 100%.

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donors' wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Temporarily and permanently restricted net assets consist solely of controlling interests of the System.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**2. Significant Accounting Policies (continued)****Performance Indicator**

The performance indicator is the excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, change in unconsolidated entities' net assets, discontinued operations, and contributions received of property and equipment.

**Operating and Nonoperating Activities**

The System's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, long-term care, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the System's primary mission are considered to be nonoperating. Additionally, contributions recognized in conjunction with business combination transactions are also classified as nonoperating.

**Net Patient Service Revenue, Accounts Receivable, and Allowance for Doubtful Accounts**

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. The System recognizes patient service revenue at the time services are rendered, even though the patient's ability to pay may not be completely assessed at that time. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by \$95,591 and \$55,340 for the years ended June 30, 2014 and 2013, respectively.



## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

The percentage of net patient service revenue, less provision for doubtful accounts earned by payor for the years ended June 30, 2014 and 2013, is as follows:

|                                    | June 30,     |              |
|------------------------------------|--------------|--------------|
|                                    | 2014         | 2013         |
| Medicare – traditional and managed | 36 %         | 36 %         |
| Medicaid – traditional and managed | 11           | 11           |
| Commercial and other managed care  | 45           | 45           |
| Self-Pay and other                 | 8            | 8            |
|                                    | <u>100 %</u> | <u>100 %</u> |

The System grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable, less allowance for doubtful accounts, at June 30, 2014 and 2013, are as follows:

|                                    | June 30,     |              |
|------------------------------------|--------------|--------------|
|                                    | 2014         | 2013         |
| Medicare – traditional and managed | 22 %         | 22 %         |
| Medicaid – traditional and managed | 9            | 8            |
| Commercial and other managed care  | 45           | 43           |
| Self-Pay and other                 | 24           | 27           |
|                                    | <u>100 %</u> | <u>100 %</u> |

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**2. Significant Accounting Policies (continued)**

The provision for doubtful accounts is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System. Accounts receivable are written off after collection efforts have been followed in accordance with the System's policies.

The methodology for determining the allowance for doubtful accounts and related write-offs on uninsured patient accounts has remained consistent with the prior year. The System has not experienced material changes in write-off trends and has not materially changed its charity care policy in the current fiscal year.

**Impairment, Restructuring, and Nonrecurring Gains (Losses)**

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on future discounted net cash flows or other estimates of fair value.

Nonrecurring expenses associated with Symphony include project management and process re-engineering costs, amortization expense for those Health Ministries not yet on Symphony, as well as costs to establish a shared service center and develop a business intelligence data warehouse. Costs associated with product deployment are recorded as nonrecurring gains (losses), and costs associated with product support are recorded as recurring operating expenses.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

During the year ended June 30, 2014, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$223,834. This amount was comprised primarily of \$163,293 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of \$26,012, impairment expenses of \$23,120, and other nonrecurring expenses of \$11,409.

During the year ended June 30, 2013, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$103,344. This amount was comprised primarily of \$113,193 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of \$57,470, and impairment and other nonrecurring expenses of \$4,998, partially offset by pension curtailment gains of \$72,317, as discussed in the Retirement Plans note.

**Amortization**

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds using a method approximating the effective interest method.

Capitalized software, including internally developed software, is amortized on a straight-line basis over the expected useful life of the software.

**Income Taxes**

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of June 30, 2014.

At June 30, 2014, the System has deferred tax assets of approximately \$326,000 for federal and state income tax purposes primarily related to net operating loss carryforwards. A valuation allowance of approximately \$322,000 was recorded due to the uncertainty regarding use of the deferred tax assets.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**2. Significant Accounting Policies (continued)****Regulatory Compliance**

Various federal and state agencies have initiated investigations regarding reimbursement claimed by certain members of the System. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of the investigations will not have a material adverse impact on the consolidated financial statements of the System.

**Reclassifications**

Certain reclassifications were made to the 2013 accompanying consolidated financial statements to conform to the 2014 presentation.

**Adoption of New Accounting Standards**

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, an amendment to the accounting guidance for disclosures about offsetting assets and liabilities. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. These ASUs expand the disclosure requirements in that entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet. Ascension adopted this collective guidance on July 1, 2013, which did not have a material impact on Ascension's consolidated financial statements for the year ended June 30, 2014. See the Derivative Instruments note for disclosures about offsetting assets and liabilities for the year ended June 30, 2014.

**Subsequent Events**

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the Consolidated Balance Sheet date. For the year ended June 30, 2014, the System evaluated subsequent events through September 11, 2014, representing the date on which the accompanying audited consolidated financial statements were issued.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

In July 2014, the System signed two separate non-binding letters of intent to sell primarily all assets and liabilities and related operations of Ascension's operations in Kansas City, Missouri and Tucson, Arizona, as discussed in the Organizational Changes note.

In August 2014, Ascension Health signed an affiliation agreement to sell primarily all of the assets, liabilities and operations associated with Ascension's operations in Niagara Falls, New York to Catholic Health System, Inc. This transaction is intended to close during calendar year 2015, after obtaining all necessary approvals.

**3. Organizational Changes****Business Combinations***Marian Health System*

Effective April 1, 2013, Ascension Health, a subsidiary of the System, became the sole corporate member, through a non-cash business combination transaction, of three regional health systems that formerly comprised Marian Health System, Inc. (Marian Health System): Via Christi Health, Inc. (Via Christi Health), based in Wichita, Kansas; Ministry Health Care, Inc. (Ministry Health Care), based in Milwaukee, Wisconsin; and St. John Health System, Inc. (St. John Health), based in Tulsa, Oklahoma (collectively, the Marian Systems). Prior to this transaction, Marian Health System was the sole corporate member of Ministry Health Care and St. John Health, while Ascension Health and Marian Health System were the two corporate members of Via Christi Health.

Prior to April 1, 2013, the System accounted for its 50% interest in Via Christi Health under the equity method of accounting. The System's investment in Via Christi Health at March 31, 2013, was \$545,018, which was reported in the Consolidated Balance Sheet at that date in investment in unconsolidated entities. For the year ended June 30, 2013, the System's excess of revenues and gains over expenses and losses included \$34,141, representing the System's share of Via Christi Health's excess of revenues over expenses prior to the business combination transaction on April 1, 2013. The System's investment in Via Christi Health of \$545,018 at March 31, 2013, was derecognized on April 1, 2013, in conjunction with the accounting for the business combination transaction.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**3. Organizational Changes (continued)**

The fair values of the Marian Systems' net assets, by major type, that were recognized in the System's Consolidated Balance Sheet on April 1, 2013, were as follows. The valuation of these net assets was finalized during the year ended June 30, 2014, resulting in no material adjustments.

|   |                     |
|---|---------------------|
| Net working capital                                   | \$ 557,274          |
| Intangible assets, including capitalized software     | 135,819             |
| Property and equipment                                | 1,950,739           |
| Assets limited as to use                              | 1,126,259           |
| Investments and other long-term assets                | 1,125,652           |
| Noncurrent liabilities assumed                        | <u>(2,144,948)</u>  |
| Subtotal  | 2,750,795           |
| Less: March 31, 2013 Investment in Via Christi Health | <u>(545,018)</u>    |
| Fair value of net assets                              | <u>\$ 2,205,777</u> |

The fair value of net assets of \$2,205,777 in the preceding table was recognized in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013, as a nonoperating contribution from business combinations of \$2,028,992; contributions of temporarily and permanently restricted net assets of \$44,201 and \$67,846, respectively; and contributions of noncontrolling interests of \$64,738.

For the three months ended June 30, 2013, the System recognized revenues of the Marian Systems of \$1,049,259, and an excess of revenues and gains over expenses and losses of the Marian Systems of \$56,670, of which \$55,542 was attributable to controlling interest, with the remaining attributable to noncontrolling interests. Additionally, for the three months ended June 30, 2013, the System recognized an increase in unrestricted net assets – controlling interests, excluding the excess of revenues and gains over expenses and losses of \$56,670 above, of \$53,801; an increase in unrestricted net assets – noncontrolling interests of \$823; an increase in temporarily restricted net assets of \$915; and a decrease in permanently restricted net assets of \$56.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**3. Organizational Changes (continued)**

The following unaudited pro forma financial information presents the combined results of operations of the System and the Marian Systems for the year ended June 30, 2013, as though the April 1, 2013 business combination transaction had occurred on July 1, 2011. This pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the System and the Marian Systems constituted a single entity during this period, nor is it necessarily indicative of future operating results.

|  | <b>Year Ended<br/>June 30, 2013</b> |
|--|-------------------------------------|
| Total operating revenue  | \$ 20,005,943                       |
| Excess of revenues and gains over expenses and losses          | 1,230,777                           |
| Increase in unrestricted net assets – controlling interest     | 1,307,542                           |
| Increase in unrestricted net assets – noncontrolling interests | 879,585                             |
| Increase in temporarily restricted net assets                  | 7,497                               |
| Increase in permanently restricted net assets                  | 7,945                               |

The excess of revenues and gains over expenses and losses and the increase in unrestricted net assets – controlling interest in the table above exclude the nonoperating contribution from the Marian Health System business combination of \$2,028,992 included in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013. The pro forma excess of revenues and gains over expenses and losses above includes certain adjustments attributable to the April 1, 2013, business combination transaction.

In addition, the increases in unrestricted net assets – controlling interest, temporarily restricted net assets, and permanently restricted net assets in the table above exclude the contributions from business combinations reflected in the contributions of noncontrolling interests, and temporarily and permanently restricted net assets of \$64,738, \$44,201, and \$67,846, respectively.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**3. Organizational Changes (continued)***Mercy Regional Health Center, Inc.*

On February 27, 2014 (transaction date), Via Christi Health, a subsidiary of Ascension Health, became the sole corporate member of Mercy Regional Health Center, Inc. (MRHC) through a membership transfer agreement with Memorial Hospital Association (MHA). Prior to the transaction date, Via Christi Health held a 50% controlling interest in MRHC, which it consolidated, with a noncontrolling interest recognized for the portion of MRHC held by MHA. On the transaction date, Via Christi Health paid cash of approximately \$7,300 to MHA in exchange for MHA's 50% interest valued at approximately \$52,530, along with contingent consideration, paid in the event of a sale or future change in control of either MRHC or Via Christi Health, or the dissolution of MRHC. As such, this contingent liability had a value of zero at June 30, 2014 and through September 11, 2014, the date of issuance of Ascension's consolidated financial statements. This transaction was accounted for as a \$45,255 increase in controlling interest and a corresponding \$52,530 decrease in noncontrolling interest in Ascension's Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2014.

**Divestitures and Discontinued Operations**

As of June 30, 2014, and through September 11, 2014, the date of issuance of Ascension's consolidated financial statements, the System is in discussions, and has signed related non-binding letters of intent, with certain third parties for the sale of primarily all assets, liabilities and operations, excluding certain non-acute care entities, associated with Ascension's operations in Kansas City, Missouri; Tucson, Arizona; and Niagara Falls, New York (entities held for sale). A noncontrolling interest in the operations in Tucson, Arizona, subsequent to the sale is expected to be retained. Completion of these proposed transactions is subject to due diligence and execution of final definitive agreements, including obtaining all necessary approvals.



## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**3. Organizational Changes (continued)**

Assets and liabilities intended to be sold are designated as assets and liabilities held for sale, and included within other assets and other liabilities, respectively, in the System's Consolidated Balance Sheets. Assets held for sale were \$431,404 and \$571,350 at June 30, 2014 and 2013, respectively, while liabilities held for sale were \$130,722 and \$142,707 at June 30, 2014 and 2013, respectively. Revenues of the entities held for sale were \$870,862 and \$862,838 for the years ended June 30, 2014 and 2013, respectively. Losses of the entities held for sale included in the Loss from discontinued operations in the Consolidated Statement of Operations and Changes in Net Assets were \$31,579 and \$74,892 for the years ended June 30, 2014 and 2013, respectively. Primarily all of the remaining loss from discontinued operations for the year ended June 30, 2014, was comprised of the write-down of assets in Tucson, Arizona, and Niagara Falls, New York, in conjunction with being classified as held for sale.

**Other**

In June 2014, Alexian Brothers Health System, a subsidiary of Ascension Health, signed a non-binding letter of intent to form a joint operating company with Adventist Midwest Health. Completion of this proposed transaction is subject to due diligence and execution of final definitive agreements, including obtaining all necessary approvals.

**4. Pooled Investment Fund**

At June 30, 2014 and 2013, a significant portion of the System's investments consists of the System's interest in the Alpha Fund, a limited liability company organized in the state of Delaware. Certain System assets continue to be held through the Ascension Legacy Portfolio, and subsequent to April 2012, the Ascension Legacy Portfolio no longer holds assets for unrelated entities. Additional System investments include those held and managed by the Health Ministries' and their consolidated foundations.

The Alpha Fund includes the investment interests of the System and other Alpha Fund members. AIM, a wholly owned subsidiary of the System, manages and serves as the manager and primary investment advisor of the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management. The Alpha Fund is consolidated in the System's financial statements.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**4. Pooled Investment Fund (continued)**

The portion of the Alpha Fund's net assets representing interests held by entities other than the System are reflected in noncontrolling interests in the Consolidated Balance Sheets, which amount to \$1,490,082 and \$1,450,580 at June 30, 2014 and 2013, respectively.

The Alpha Fund invests in a diversified portfolio of investments including alternative investments, such as real asset funds, hedge funds, private equity funds, commodity funds, and private credit funds. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was \$1,312,677 at June 30, 2014, cannot currently be redeemed. However, the potential for the Alpha Fund to sell its interest in these funds in a secondary market prior to the end of the fund term does exist.

The Alpha Fund's investments in certain alternative investment funds also include contractual commitments to provide capital contributions during the investment period, which is typically five years and can extend to the end of the fund term. During these contractual periods, investment managers may require the Alpha Fund to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2014, contractual agreements of the Alpha Fund expire between July 2014 and December 2019. The remaining unfunded capital commitments of the Alpha Fund total approximately \$1,459,000 for 95 individual funds as of June 30, 2014. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

In the normal course of operations and within established Alpha Fund guidelines, the Alpha Fund may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, option, and forward contracts as well as warrants and swaps. These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**4. Pooled Investment Fund (continued)**

At June 30, 2014 and 2013, the notional value of Alpha Fund derivatives outstanding was approximately \$2,377,000 and \$2,126,000, respectively. The fair value of Alpha Fund derivatives in an asset position was \$61,234 and \$35,404 at June 30, 2014 and 2013, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$3,478 and \$84,249 at June 30, 2014 and 2013, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2014 and 2013.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to approximately \$3,000 and \$394,000 at June 30, 2014 and 2013, respectively, and is included in other current assets in the Consolidated Balance Sheets, while the liability associated with the obligation to repay such collateral is also approximately \$3,000 and \$394,000 at June 30, 2014 and 2013, respectively, and is included in other current liabilities in the Consolidated Balance Sheets. In addition, the Alpha Fund has liabilities for investments sold, not yet purchased, representing obligations of the Alpha Fund to purchase investments in the market at prevailing prices. The fair value of this Alpha Fund liability is approximately \$179,000 and \$7,000 at June 30, 2014 and 2013, respectively, and is included in other noncurrent liabilities in the Consolidated Balance Sheets.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2014 and 2013, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily amounts for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**5. Cash and Investments**

The System's cash and investments are reported in the Consolidated Balance Sheets as presented in the table that follows. Total cash and investments, net, includes both the System's membership interest in the Alpha Fund and the noncontrolling interests held by other Alpha Fund members. System unrestricted cash and investments, net, represent the System's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

|   | June 30,      |               |
|---|---------------|---------------|
|   | 2014          | 2013          |
| Cash and cash equivalents                                       | \$ 618,418    | \$ 753,555    |
| Short-term investments  | 109,081       | 113,825       |
| Long-term investments   | 15,327,255    | 14,156,447    |
| Subtotal  | 16,054,754    | 15,023,827    |
| Other Alpha Fund assets and liabilities:                        |               |               |
| In other current assets   | 30,671        | 459,050       |
| In other long-term assets                                       | 2,641         | 2,785         |
| In accounts payable and other accrued liabilities               | (7,013)       | (5,680)       |
| In other current liabilities                                    | (3,341)       | (394,763)     |
| In other noncurrent liabilities                                 | (178,732)     | (6,622)       |
| Due to brokers, net   | 11,588        | (315,040)     |
| Total cash and investments, net                                 | 15,910,568    | 14,763,557    |
| Less noncontrolling interests of Alpha Fund                     | 1,490,082     | 1,450,580     |
| System cash and investments, including assets limited as to use | 14,420,486    | 13,312,977    |
| Less assets limited as to use:                                  |               |               |
| Under bond indenture agreement                                  | 43,869        | 33,955        |
| Self-insurance trust funds                                      | 759,388       | 728,621       |
| Temporarily or permanently restricted                           | 652,244       | 561,802       |
| Total assets limited as to use                                  | 1,455,501     | 1,324,378     |
| System unrestricted cash and investments, net                   | \$ 12,964,985 | \$ 11,988,599 |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**5. Cash and Investments (continued)**

At June 30, 2014 and 2013, the composition of cash and cash equivalents, short-term investments and long-term investments, which include certain assets limited as to use, is summarized as follows.

|   | June 30,             |                      |
|---|----------------------|----------------------|
|   | 2014                 | 2013                 |
| Cash and cash equivalents and short-term investments                                  | \$ 828,020           | \$ 1,113,823         |
| Pooled short-term investment funds  | 302,436              | 311,027              |
| U.S. government, state, municipal and agency obligations                              | 3,301,360            | 3,447,500            |
| Corporate and foreign fixed income securities   | 1,660,267            | 1,664,001            |
| Asset-backed securities   | 978,429              | 1,196,168            |
| Equity securities   | 3,318,063            | 2,695,483            |
| Alternative investments and other investments:  |                      |                      |
| Private equity and real estate funds  | 1,039,704            | 809,341              |
| Hedge funds   | 3,303,800            | 2,860,776            |
| Commodities funds and other investments   | 1,322,675            | 925,708              |
| Total alternative investments and other investments                                   | 5,666,179            | 4,595,825            |
| Total cash and cash equivalents, short-term investments,<br>and long-term investments | <u>\$ 16,054,754</u> | <u>\$ 15,023,827</u> |

As of June 30, 2014 and 2013, the System's membership interest in the Alpha Fund totaled \$12,500,448 and \$11,251,590, respectively. As of June 30, 2014 and 2013, the noncontrolling interest (see Note 2) in the Alpha Fund, representing interests held by entities other than the System, totaled \$1,490,082 and \$1,450,580, respectively.

Investment return recognized by the System for the years ended June 30, 2014 and 2013, is summarized in the following table. Total investment return includes the System's return in the Ascension Legacy Portfolio and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**5. Cash and Investments (continued)**

|  | <b>Year Ended June 30,</b> |                   |
|--|----------------------------|-------------------|
|  | <b>2014</b>                | <b>2013</b>       |
| Interest and dividends                                       | \$ 203,975                 | \$ 169,797        |
| Net gains on investments reported at fair value              | 1,378,018                  | 601,488           |
| Restricted investment return and unrealized gains, net       | 39,234                     | 18,830            |
| Total investment return                                      | 1,621,227                  | 790,115           |
| Less return earned by noncontrolling interests of Alpha Fund | 193,400                    | 106,039           |
| System investment return                                     | <u>\$ 1,427,827</u>        | <u>\$ 684,076</u> |

**6. Fair Value Measurements**

The System categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**6. Fair Value Measurements (continued)**

The System follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets or exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2014 and 2013.

As of June 30, 2014 and 2013, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

*Cash and Cash Equivalents and Short-Term Investments*

Cash and cash equivalents and certain short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates. Other short-term investments designated as Level 2 investments primarily consist of commercial paper, whose fair value is based on the income approach. Significant observable inputs include security cost, maturity, credit rating, interest rate, and par value.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**6. Fair Value Measurements (continued)***Pooled Short-term Investment Fund*

The pooled short-term investment fund is a short term exchange traded money market fund primarily invested in treasury securities.

*U.S. Government, State, Municipal, and Agency Obligations*

The fair value of investments in U.S. government, state, municipal, and agency obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

*Corporate and Foreign Fixed Income Securities*

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

*Asset-backed Securities*

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

*Equity Securities*

The fair value of investments in U.S. and international equity securities is primarily determined using techniques consistent with the market and income approaches. The values for underlying investments are fair value estimates determined by external fund managers based on quoted market prices, operating results, balance sheet stability, growth, dividend, dividend yield, and other business and market sector fundamentals.



## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**6. Fair Value Measurements (continued)***Alternative Investments and Other Investments*

Alternative investments consist of private equity, hedge funds, private equity funds, commodity funds, and real estate partnerships. The fair value of private equity is primarily determined using techniques consistent with both the market and income approaches, based on the System's estimates and assumptions in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

The fair value of hedge funds, private equity funds, commodity funds, and real estate partnerships is primarily determined using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Other investments include derivative assets and derivative liabilities of the Alpha Fund, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

*Securities Lending Collateral*

The fair value of collateral received under the Alpha Fund's securities lending program is valued using the calculated net asset value for the commingled fund in which the collateral is invested. The underlying investments in the commingled fund are valued using techniques consistent with the market approach, which uses significant observable market inputs such as available trade, quotes, benchmark curves, sector groupings, and matrix pricing.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**6. Fair Value Measurements (continued)***Benefit Plan Assets*

The fair value of benefit plan assets is based on original investment into a guaranteed pooled fund, plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

*Interest Rate Swap Assets and Liabilities*

The fair value of interest rate swaps is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

*Investments Sold, Not Yet Purchased*

The fair value of investments sold, not yet purchased is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark, constant maturity curves, and spreads.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**6. Fair Value Measurements (continued)**

The following table summarizes fair value measurements, by level, at June 30, 2014, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

|  | Level 1    | Level 2   | Level 3   | Total                |
|--|------------|-----------|-----------|----------------------|
| <b>June 30, 2014</b>   |            |           |           |                      |
| Cash and cash equivalents  | \$ 351,934 | \$ 3,398  | \$ —      | \$ 355,332           |
| Short-term investments   | 44,193     | 23,804    | 293       | 68,290               |
| Pooled short-term investment funds                                   | 302,436    | —         | —         | 302,436              |
| U.S. government, state, municipal and agency obligations             | —          | 3,301,360 | —         | 3,301,360            |
| Corporate and foreign fixed income securities                        | —          | 1,429,694 | 230,573   | 1,660,267            |
| Asset-backed securities  | —          | 878,508   | 99,921    | 978,429              |
| Equity securities  | 3,079,815  | 186,670   | 51,578    | 3,318,063            |
| Alternative investments and other investments:                       |            |           |           |                      |
| Private equity and real estate funds                                 | 388        | 5,901     | 1,030,536 | 1,036,825            |
| Hedge funds  | —          | —         | 3,303,800 | 3,303,800            |
| Commodities funds and other investments                              | 134        | 1,352     | 1,212,420 | 1,213,906            |
| Assets not at fair value   |            |           |           | 516,046              |
| Cash and investments   |            |           |           | <u>\$ 16,054,754</u> |
| Securities lending collateral, in other current assets               | \$ —       | \$ 3,341  | \$ —      | \$ 3,341             |
| Benefit plan assets, in other noncurrent assets                      | 235,991    | —         | 40,749    | 276,740              |
| Interest rate swaps, in other noncurrent assets                      | —          | 69,883    | —         | 69,883               |
| Investments sold, not yet purchased, in other noncurrent liabilities | —          | 178,732   | —         | 178,732              |
| Interest rate swaps, included in other noncurrent liabilities        | —          | 189,659   | —         | 189,659              |

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

## 6. Fair Value Measurements (continued)

For the year ended June 30, 2014, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following.

| Year Ended   | Short-term<br>investments | U.S.<br>Government,<br>State,<br>Municipal<br>and Agency<br>Obligations | Corporate<br>and Foreign<br>Fixed<br>Income<br>Securities | Asset-<br>Backed<br>Securities | Equity<br>Securities | Private<br>Equity and<br>Real Estate<br>Funds | Hedge Funds  | Commodities<br>Funds and<br>Other<br>Investments | Benefit<br>Plan Assets |
|--|---------------------------|---|---|--------------------------------|----------------------|---|--------------|--|------------------------|
| <b>June 30, 2014</b>   |                           |   |   |                                |                      |   |              |  |                        |
| Beginning balance  | \$ 238                    | \$ 5,829  | \$ 391,287  | \$ 117,033                     | \$ 2,163             | \$ 799,414                                    | \$ 2,857,114 | \$ 831,182                                       | \$ 35,662              |
| Total realized and unrealized<br>gains (losses):   |                           |   |   |                                |                      |   |              |  |                        |
| Included in income from<br>operations  | —                         | 3   | 178   | 1                              | 8,287                | —   | (11)         | 8  | —                      |
| Included in nonoperating<br>gains (losses)   | 55                        | (27)  | 19,138  | 35                             | (97)                 | 103,975                                       | 267,740      | 413,774  | —                      |
| Included in changes in<br>net assets   | —                         | —   | —   | —                              | —                    | 44  | 577          | 17   | —                      |
| Purchases  | —                         | —   | 104,381   | 94,926                         | 52,839               | 337,742                                       | 543,162      | 267,890  | 202,600                |
| Settlements  | —                         | —   | —   | —                              | —                    | (391)   | —            | —  | —                      |
| Sales  | —                         | (5,805)   | (273,882)   | (2,227)                        | (10,899)             | (210,248)                                     | (376,420)    | (299,570)  | (216,349)              |
| Transfers into Level 3   | —                         | —   | —   | —                              | —                    | —   | 11,640       | —  | 77,763                 |
| Transfers out of Level 3   | —                         | —   | (10,529)  | (109,847)                      | (715)                | —   | (2)          | (881)  | (58,927)               |
| Ending balance   | \$ 293                    | \$ —  | \$ 230,573  | \$ 99,921                      | \$ 51,578            | \$ 1,030,536                                  | \$ 3,303,800 | \$ 1,212,420                                     | \$ 40,749              |
| The amount of total gains<br>or losses for the period<br>included in nonoperating<br>gains (losses) attributable<br>to the changes in<br>unrealized gains or losses<br>relating to assets still<br>held at June 30, 2014 | \$ 56                     | \$ —  | \$ 7,605  | \$ (239)                       | \$ 7,394             | \$ 70,701                                     | \$ 241,386   | \$ 128,351                                       | \$ —                   |

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**6. Fair Value Measurements (continued)**

The following table summarizes fair value measurements, by level, at June 30, 2013, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

|  | Level 1    | Level 2    | Level 3   | Total                |
|--|------------|------------|-----------|----------------------|
| <b>June 30, 2013</b>   |            |            |           |                      |
| Cash and cash equivalents  | \$ 618,129 | \$ 14,277  | \$ —      | \$ 632,406           |
| Short-term investments   | 21,821     | 45,258     | 238       | 67,317               |
| Pooled short-term investment funds                                   | 311,027    | —          | —         | 311,027              |
| U.S. government, state, municipal and agency obligations             | —          | 3,441,671  | 5,829     | 3,447,500            |
| Corporate and foreign fixed income securities                        | —          | 1,272,714  | 391,287   | 1,664,001            |
| Asset-backed securities  | —          | 1,079,135  | 117,033   | 1,196,168            |
| Equity securities  | 2,656,950  | 36,370     | 2,163     | 2,695,483            |
| Alternative investments and other investments:                       |            |            |           |                      |
| Private equity and real estate funds                                 | 529        | 3,752      | 799,414   | 803,695              |
| Hedge funds  | —          | —          | 2,857,114 | 2,857,114            |
| Commodities funds and other investments                              | 5,762      | (6,061)    | 831,182   | 830,883              |
| Assets not at fair value   |            |            |           | 518,233              |
| Cash and investments   |            |            |           | <u>\$ 15,023,827</u> |
| Securities lending collateral, in other current assets               | \$ —       | \$ 394,310 | \$ —      | \$ 394,310           |
| Benefit plan assets, in other noncurrent assets                      | 210,767    | —          | 35,662    | 246,429              |
| Interest rate swaps, in other noncurrent assets                      | —          | 76,650     | —         | 76,650               |
| Investments sold, not yet purchased, in other noncurrent liabilities | —          | 6,622      | —         | 6,622                |
| Interest rate swaps, included in other noncurrent liabilities        | —          | 194,546    | —         | 194,546              |

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

## 6. Fair Value Measurements (continued)

For the year ended June 30, 2013, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following. Level 3 investments of the Alpha Fund are included in transfers in the table below.

| Year Ended  | Short-term investments | U.S. Government, State, Municipal and Agency Obligations | Corporate and Foreign Fixed Income Securities | Asset-Backed Securities | Equity Securities | Private Equity and Real Estate Funds | Hedge Funds  | Commodities Funds and Other Investments | Benefit Plan Assets |
|---|------------------------|--|---|-------------------------|-------------------|--------------------------------------|--------------|---|---------------------|
| <b>June 30, 2013</b>  |                        |  |   |                         |                   |                                      |              |   |                     |
| Beginning balance   | \$ —                   | \$ 7,437   | \$ 120,418                                    | \$ 15,297               | \$ 13,118         | \$ 593,753                           | \$ 1,887,407 | \$ 615,813                              | \$ 35,373           |
| Total realized and unrealized gains (losses):   |                        |  |   |                         |                   |                                      |              |   |                     |
| Included in income from operations  | —                      | 16   | 242   | 10                      | 1,489             | —                                    | 123          | (45)                                    | —                   |
| Included in nonoperating gains (losses)   | 3                      | 445  | 1,059   | (227)                   | 170               | 83,975                               | 220,887      | 80,222                                  | —                   |
| Included in changes in net assets   | —                      | —  | —   | —                       | —                 | —                                    | 293          | 27                                      | —                   |
| Purchases   | —                      | 169  | 328,980                                       | 122,703                 | 718               | 188,085                              | 981,414      | 401,957                                 | 44,150              |
| Settlements   | —                      | —  | —   | —                       | —                 | (25)                                 | —            | —                                       | (279)               |
| Sales   | —                      | (2,238)  | (58,928)                                      | (17,883)                | (13,372)          | (66,836)                             | (232,198)    | (266,889)                               | (41,668)            |
| Transfers into Level 3  | 235                    | —  | 2,962   | —                       | 40                | 927                                  | 3,271        | 139                                     | 12,485              |
| Transfers out of Level 3  | —                      | —  | (3,446)                                       | (2,867)                 | —                 | (465)                                | (4,083)      | (42)                                    | (14,399)            |
| Ending balance  | \$ 238                 | \$ 5,829   | \$ 391,287                                    | \$ 117,033              | \$ 2,163          | \$ 799,414                           | \$ 2,857,114 | \$ 831,182                              | \$ 35,662           |
| The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at June 30, 2013 | \$ 46                  | \$ 342   | \$ (1,682)                                    | \$ (751)                | \$ 149            | \$ 39,300                            | \$ 234,426   | \$ (28,407)                             | \$ —                |

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Long-Term Debt**

Long-term debt at June 30, 2014 and 2013, is comprised of the following and is presented in accordance with the specific master trust indenture to which the debt relates. As further discussed below, certain portions of long-term debt are secured under the Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; The Howard Young Medical Center, Inc. Master Trust Indenture; the St. John Health System Master Trust Indenture; and the Ministry Health Care Master Trust Indenture.

|  | June 30,   |            |
|--|------------|------------|
|  | 2014       | 2013       |
| Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:  |            |            |
| Variable rate demand bonds, subject to a put provision that provides for a cumulative 7-month notice and remarketing period, payable through November 2047; interest (0.12% at June 30, 2014) tied to a market index plus a spread                         | \$ 393,425 | \$ 408,605 |
| Variable rate demand bonds, subject to a 7-day put provision, payable through November 2039; interest (0.06% June 30, 2014) set at prevailing market rates   | 224,225    | 225,665    |
| Variable rate demand bonds, subject to a 7-day put provision, payable through November 2033; interest (0.06% at June 30, 2014) set at prevailing market rates, swapped to fixed rates of 5.454% and 5.544%, respectively, through maturity                 | 307,300    | 307,300    |
| Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046; interest (2.036% at June 30, 2014) swapped to a variable rate tied to a tax-exempt market index plus a spread through November 2016               | 153,800    | 153,800    |
| Fixed rate put bonds (converted from an indexed put bond mode based on a taxable index in May 2009) payable through November 2046; interest (4.10% at June 30, 2014) swapped to a variable rate tied to a market index plus a spread through November 2016 | 153,690    | 153,690    |
| Fixed rate serial and term bonds payable in installments through November 2051; interest at 3.00% to 5.25%   | 1,154,320  | 1,207,490  |
| Fixed rate serial and term bonds payable in installments through November 2039; interest at 5.00% swapped to variable rates over the life of the bonds   | 585,290    | 587,360    |
| Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from August 2014 through June 2021; interest at 0.90% to 5.00% through the purchase dates  | 1,221,920  | 1,224,750  |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Long-Term Debt (continued)**

|   | June 30,  |           |
|---|-----------|-----------|
|   | 2014      | 2013      |
| Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture:   |           |           |
| Variable rate demand bonds, subject to a 7-day put provision, payable through November 2027; interest (0.06% at June 30, 2014) set at prevailing market rates | \$ 55,100 | \$ 56,060 |
| Fixed rate serial mode bonds payable through 2027 with purchase dates through November 2019; interest at 0.32% to 5.00%                                       | 445,435   | 446,515   |
| Taxable bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:   |           |           |
| Taxable fixed rate term bonds payable in installments through November 2053; interest at 4.847%   | 425,000   | 425,000   |
| Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture   | 5,119,505 | 5,196,235 |
| Tax-exempt hospital revenue bonds – secured under Alexian Brothers Health System Master Trust Indenture:  |           |           |
| Fixed rate serial and term bonds payable in installments through February 2038; interest at 3.50% to 5.50%  | 153,710   | 157,000   |
| Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture  | 153,710   | 157,000   |
| Tax-exempt hospital revenue bonds – secured under Mercy Regional Health Center, Inc. Master Trust Indenture:  |           |           |
| Fixed rate serial and term bonds payable in installments through November 2029; interest at 3.00% to 5.00%  | 24,040    | 25,060    |
| Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture  | 24,040    | 25,060    |
| Tax-exempt hospital revenue bonds – secured under The Howard Young Medical Center, Inc. Master Trust Indenture:   |           |           |
| Fixed rate serial and term bonds payable in installments through August 2030; interest at 3.00% to 5.00%  | 19,185    | 20,040    |
| Total hospital revenue bonds under The Howard Young Medical Center, Inc. Master Trust Indenture   | 19,185    | 20,040    |



## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Long-Term Debt (continued)**

|  | June 30,     |              |
|--|--------------|--------------|
|  | 2014         | 2013         |
| Tax-exempt hospital revenue bonds – secured under St. John Health System Master Trust Indenture:   |              |              |
| Fixed rate serial and term bonds payable in installments through February 2042; interest at 4.00% to 5.00%   | \$ 407,550   | \$ 414,500   |
| Total hospital revenue bonds under the St. John Health System Master Trust Indenture   | 407,550      | 414,500      |
| Tax-exempt hospital revenue bonds – secured under Ministry Health Care Master Trust Indenture:   |              |              |
| Fixed rate serial and term bonds payable in installments through August 2035; interest at 3.00% to 5.50%   | 358,415      | 368,260      |
| Total hospital revenue bonds under the Ministry Health Care Master Trust Indenture   | 358,415      | 368,260      |
| Total hospital revenue bonds under the Ascension Health Alliance Senior Master Trust Indenture; Ascension Health Alliance Subordinate Master Trust Indenture; the Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; The Howard Young Medical Center, Inc. Master Trust Indenture; St. John Health System Master Trust Indenture; and Ministry Health Care Master Trust Indenture | 6,082,405    | 6,181,095    |
| Other debt:  |              |              |
| Obligations under capital leases   | 30,623       | 41,957       |
| Other  | 123,368      | 113,710      |
|  | 6,236,396    | 6,336,762    |
| Unamortized premium, net   | 195,579      | 218,536      |
| Less current portion   | (91,532)     | (89,869)     |
| Less long-term debt subject to short-term remarketing arrangements   | (1,345,530)  | (1,187,125)  |
| Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements   | \$ 4,994,913 | \$ 5,278,304 |

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

## 7. Long-Term Debt (continued)

|   | June 30,            |                     |
|---|---------------------|---------------------|
|   | 2014                | 2013                |
| Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net      | \$ 3,329,323        | \$ 3,579,334        |
| Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net | 505,843             | 511,009             |
| Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net        | 160,965             | 162,594             |
| Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net    | 25,498              | 27,258              |
| The Howard Young Medical Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net | 19,942              | 20,933              |
| St. John Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net                | 429,154             | 437,503             |
| Ministry Health Care Master Trust Indenture long-term debt obligations, including unamortized premium, net                  | 381,144             | 394,781             |
| Other   | 143,044             | 144,892             |
| Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements                     | <u>\$ 4,994,913</u> | <u>\$ 5,278,304</u> |

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2014, are as follows:

|                      | Ascension Health Alliance MTIs | Alexian Brothers Health System MTI | Mercy Regional Health Center, Inc. MTI | The Howard Young Medical Center, Inc. MTI | St. John Health System MTI | Ministry Health Care MTI | Other Debt        | Total               |
|----------------------|--------------------------------|------------------------------------|--|---|----------------------------|--------------------------|-------------------|---------------------|
| Year ending June 30: |                                |                                    |  |   |                            |                          |                   |                     |
| 2015                 | \$ 59,835                      | \$ 340                             | \$ 1,045                               | \$ 875                                    | \$ 7,305                   | \$ 11,185                | \$ 10,947         | \$ 91,532           |
| 2016                 | 50,130                         | 7,485                              | 1,080                                  | 910                                       | 7,680                      | 11,665                   | 22,513            | 101,463             |
| 2017                 | 65,945                         | 13,130                             | 1,125                                  | 945                                       | 8,070                      | 12,185                   | 9,200             | 110,600             |
| 2018                 | 69,045                         | 15,655                             | 1,175                                  | 975                                       | 6,890                      | 12,890                   | 35,710            | 142,340             |
| 2019                 | 85,230                         | 5,735                              | 1,230                                  | 1,000                                     | 7,230                      | 12,265                   | 8,908             | 121,598             |
| Thereafter           | 4,789,320                      | 111,365                            | 18,385                                 | 14,480                                    | 370,375                    | 298,225                  | 66,713            | 5,668,863           |
| Total                | <u>\$ 5,119,505</u>            | <u>\$ 153,710</u>                  | <u>\$ 24,040</u>                       | <u>\$ 19,185</u>                          | <u>\$ 407,550</u>          | <u>\$ 358,415</u>        | <u>\$ 153,991</u> | <u>\$ 6,236,396</u> |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Long-Term Debt (continued)**

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are obtained from independent public valuation services. The fair value of fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2014 and 2013. During the years ended June 30, 2014 and 2013, interest paid was approximately \$223,000 and \$170,000, respectively. Capitalized interest was approximately \$5,500 and \$5,400 for the years ended June 30, 2014 and 2013, respectively.

Certain members of the System formed the Ascension Health Alliance Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, a senior designated affiliate, or a senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by the System. Senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI. The System may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including payment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with the System with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates, and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by the System. Subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI. The System may cause each subordinate designated affiliate to

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Long-Term Debt (continued)**

transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with the System, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation.

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2014, the principal amount of such bonds has been classified as a current liability in the accompanying Consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to the System to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including the line of credit, commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

On January 1, 2012, Alexian Brothers became part of the System. Subsequently, the System redeemed or refinanced a portion of Alexian Brothers' debt; however, a portion of the bonds previously issued for the benefit of Alexian Brothers remains outstanding (the Alexian Brothers' Bonds). The Alexian Brothers' Bonds continue to be secured by the Alexian Brothers Health System Master Trust Indenture (As Amended and Restated), dated October 1, 1992, between the Members of the Alexian Brothers Health System Obligated Group established under this document and the Alexian Brothers Health System Master Trustee.

On April 1, 2013, Marian Health System joined Ascension Health. Subsequently, the System redeemed or refinanced a portion of the debt of the Marian Systems; however, a portion of the bonds previously issued for the benefit of the Marian Systems remains outstanding. These bonds continue to be secured by the respective Master Trust Indentures, including the Amended and Restated Master Trust Indenture dated October 1, 1999, by and between St. John Health System and the St. John Health Master Trustee; the Master Trust Indenture dated October 1, 1984, by and between Ministry Health Care and the Ministry Health Care Master Trustee; the Master Trust Indenture dated August 15, 1993, between The Howard Young Medical Center, Inc., a subsidiary of Ministry Health Care, and The Howard Young Medical Center, Inc. Master

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Long-Term Debt (continued)**

Trustee; and the Master Trust Indenture dated January 15, 2013, between Mercy Regional Health Center, Inc. (a subsidiary of Via Christi Health) and the Mercy Regional Health Center, Inc. Master Trustee.

In June 2013, the System issued a total of \$521,865 of tax-exempt bonds, Series 2013A and 2013B, through the Wisconsin issuing authority. In June 2013, the System also issued a total of \$425,000 of taxable bonds, Series 2013A. The proceeds of the bonds, including original issue premium, were used to refinance debt and general corporate purposes.

Due to aggregate financing activity during the fiscal years ended June 30, 2014 and 2013, losses on extinguishment of debt of \$1,605 and \$4,079, respectively, were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

The System is a party to multiple interest rate swap agreements that convert the variable or fixed rates of certain debt issues to fixed or variable rates, respectively. See the Derivative Instruments note for a discussion of these derivatives.

As of June 30, 2014, the Senior Credit Group has a line of credit of \$1,000,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes, towards which bank commitments totaling \$1,000,000 extend to November 9, 2014. As of June 30, 2014 and 2013, there were no borrowings under the line of credit.

As of June 30, 2014, the Senior Credit Group has a \$75,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$75,000 extends to November 26, 2014. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this \$75,000 revolving line of credit, letters of credit totaling \$57,455 have been issued as of June 30, 2014. No borrowings were outstanding under the letters of credit as of June 30, 2014 and 2013.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**8. Derivative Instruments**

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indentures of the System, Alexian Brothers, Ministry Health Care, and St. John Health. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2014 and 2013, the notional values of outstanding interest rate swaps were as follows:

|                                    | June 30,            |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2014                | 2013                |
| Ascension Health Alliance MTI      | \$ 2,128,757        | \$ 2,128,757        |
| Alexian Brothers Health System MTI | 39,220              | 47,220              |
| Ministry Health Care MTI           | 192,950             | 270,880             |
| St. John Health System MTI         | 100,000             | 125,000             |
| Total                              | <u>\$ 2,460,927</u> | <u>\$ 2,571,857</u> |

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The respective fair values of interest rate swaps in an asset and liability position for the System, Alexian Brothers, Ministry Health Care and St. John Health were as follows:

|                                    | June 30, 2014    |                   | June 30, 2013    |                   |
|------------------------------------|------------------|-------------------|------------------|-------------------|
|                                    | Asset            | Liability         | Asset            | Liability         |
| Ascension Health Alliance MTI      | \$ 66,981        | \$ 169,031        | \$ 73,846        | \$ 174,413        |
| Alexian Brothers Health System MTI | —                | 1,934             | —                | 2,685             |
| Ministry Health Care MTI           | 2,902            | 17,938            | 2,804            | 16,492            |
| St. John Health System MTI         | —                | 756               | —                | 956               |
| Total                              | <u>\$ 69,883</u> | <u>\$ 189,659</u> | <u>\$ 76,650</u> | <u>\$ 194,546</u> |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**8. Derivative Instruments (continued)**

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are separately calculated for the System, Alexian Brothers, Ministry Health Care, and St. John Health based on the credit ratings of each. In the case of the System, the applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. Collateral and net fair value of interest rate swap agreements with credit-risk-related contingent features at June 30, 2014 and 2013, based upon the respective net liability positions and applicable credit ratings were as follows:

|                                    | June 30, 2014       |                   | June 30, 2013       |                   |
|------------------------------------|---------------------|-------------------|---------------------|-------------------|
|                                    | Net Fair Value      | Collateral Posted | Net Fair Value      | Collateral Posted |
| Ascension Health Alliance MTI      | \$ (102,050)        | \$ —              | \$ (100,567)        | \$ —              |
| Alexian Brothers Health System MTI | (1,934)             | —                 | (2,685)             | —                 |
| Ministry Health Care MTI           | (15,036)            | 16,218            | (13,688)            | 23,024            |
| St. John Health System MTI         | (756)               | —                 | (956)               | —                 |
| Total                              | <u>\$ (119,776)</u> | <u>\$ 16,218</u>  | <u>\$ (117,896)</u> | <u>\$ 23,024</u>  |

Prior to July 1, 2006, the System designated certain of its interest rate swaps as cash flow hedges, for accounting purposes, and accordingly deferred gains or losses associated with those swaps in net assets. As of June 30, 2014, the deferred net gain associated with these interest rate swaps was \$4,054. The portion of this gain that will be reclassified into nonoperating gains (losses) over the next 12 months is immaterial.

Beginning July 1, 2006, the System's previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of interest rate swaps have been recognized in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets. A net nonoperating gain of \$1,752 was recognized for the year ended June 30, 2014, while a net nonoperating loss of \$61,651 was recognized for the year ended June 30, 2013.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**9. Retirement Plans****Defined-Benefit Plans**

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans covering substantially all eligible employees of certain System entities. Benefits are based on each participant's years of service and compensation. All of the System Plans' assets are invested in Trusts, which include the Master Pension Trust (the Trust) and other trusts (the Other Trusts). The System Plans' assets primarily consist of cash and cash equivalents, equity, fixed income funds, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds. Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants.

During previous fiscal years, the System approved and communicated to employees a redesign of associate retirement benefits, which affects certain System Plans, as well as provides an enhanced comprehensive defined contribution plan. This redesign resulted in the recognition of a curtailment gain of \$73,198, for the year ended June 30, 2013, which was recognized in total impairment, restructuring, and nonrecurring losses, net for the year ended June 30, 2013. This redesign resulted in a decrease to the projected benefit obligation and is included in pension and other postretirement liabilities in the Consolidated Balance Sheets.

The assets of the System Plans are available to pay the benefits of eligible employees and retirees of all participating entities. In the event entities participating in the System Plans are unable to fulfill their financial obligations under the System Plans, the other participating entities are obligated to do so.



## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2014 and 2013, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements.

|  | <b>Year Ended June 30,</b> |              |
|--|----------------------------|--------------|
|  | <b>2014</b>                | <b>2013</b>  |
| Change in projected benefit obligation:                |                            |              |
| Projected benefit obligation at beginning of year      | \$ 7,201,780               | \$ 6,437,246 |
| Service Cost   | 51,176                     | 119,018      |
| Interest Cost  | 343,781                    | 289,634      |
| Amendments   | 290                        | (12,792)     |
| Assumption change                                      | 408,908                    | (363,778)    |
| Actuarial (gain) loss                                  | 55,623                     | (28,641)     |
| Business combinations                                  | —                          | 1,137,270    |
| Curtailment  | (4,193)                    | (74,962)     |
| Benefits paid  | (365,406)                  | (301,215)    |
| Projected benefit obligation at end of year            | 7,691,959                  | 7,201,780    |
| Accumulated benefit obligation at end of year          | 7,649,965                  | 7,155,166    |
| Change in plan assets:                                 |                            |              |
| Fair value of plan assets at beginning of year         | 6,742,384                  | 5,992,677    |
| Actual return on plan assets                           | 1,046,540                  | 121,715      |
| Employer contributions                                 | 41,597                     | 54,541       |
| Business combinations                                  | —                          | 874,666      |
| Benefits paid  | (365,406)                  | (301,215)    |
| Fair value of plan assets at end of year               | 7,465,115                  | 6,742,384    |
| Net amount recognized at end of year and funded status | \$ (226,844)               | \$ (459,396) |

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2014 and 2013, was 97.1% and 93.6%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2014 and 2013, was 97.6% and 94.2%, respectively.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

Included in unrestricted net assets at June 30, 2014 and 2013, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

|                                   | <b>Year Ended June 30,</b> |                   |
|-----------------------------------|----------------------------|-------------------|
|                                   | <b>2014</b>                | <b>2013</b>       |
| Unrecognized prior service credit | \$ (17,348)                | \$ (23,080)       |
| Unrecognized actuarial loss       | 330,938                    | 364,739           |
|                                   | <u>\$ 313,590</u>          | <u>\$ 341,659</u> |

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2014 and 2013 include:

|  | <b>Year Ended June 30,</b> |                    |
|--|----------------------------|--------------------|
|  | <b>2014</b>                | <b>2013</b>        |
| Current year actuarial gain              | \$ (27,867)                | \$ (87,934)        |
| Amortization of actuarial (gain) loss    | (5,934)                    | 19,725             |
| Current year prior service cost (credit) | 290                        | (12,792)           |
| Amortization of prior service credit     | 5,442                      | 5,944              |
|  | <u>\$ (28,069)</u>         | <u>\$ (75,057)</u> |

|  | <b>Year Ended June 30,</b> |                     |
|--|----------------------------|---------------------|
|  | <b>2014</b>                | <b>2013</b>         |
| <b>Components of net periodic benefit cost</b> |                            |                     |
| Service cost                                   | \$ 51,176                  | \$ 119,018          |
| Interest cost                                  | 343,781                    | 289,634             |
| Expected return on plan assets                 | (558,335)                  | (500,497)           |
| Amortization of prior service credit           | (4,017)                    | (6,242)             |
| Amortization of actuarial loss                 | 7,709                      | 53,783              |
| Curtailment gain                               | (1,426)                    | (73,198)            |
| Settlement gain                                | (1,774)                    | (12)                |
| Net periodic benefit cost                      | <u>\$ (162,886)</u>        | <u>\$ (117,514)</u> |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

The prior service credit and actuarial gain included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2015, are \$4,000 and \$24,955, respectively.

The assumptions used to determine the benefit obligation and net periodic benefit cost for the System Plans are set forth below:

|  | June 30, |       |
|--|----------|-------|
|  | 2014     | 2013  |
| Weighted-average discount rate                                       | 4.35%    | 4.88% |
| Weighted-average rate of compensation increase                       | 3.81%    | 3.81% |
| Weighted-average expected long-term rate of<br>return on plan assets | 8.30%    | 8.30% |

The System Plans' assets invested in the Trust are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating to funds and managers that correlate to one of three economic strategies: growth, deflation, and inflation. Growth strategies include U.S. equity, emerging market equity, global equity, international equity, directional hedge funds, private equity, high yield, and private credit. Deflation strategies include core fixed income, absolute return hedge funds, and cash. Inflation strategies include inflation-linked bonds, commodity-related investments, and real assets. The System Plans use multiple investment managers with complementary styles, philosophies, and approaches. In accordance with the System Plans' objectives, derivatives may also be used to gain market exposure in an efficient and timely manner.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value as determined by each fund's investment manager, which approximates fair value. The fair value of the System Plans' alternative investments in the Trust as of June 30, 2014, is reported in the fair value measurement table that follows. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately \$1,313,000 at June 30, 2014, cannot be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend to the end of the fund term. During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2014, investment periods expire between July 2014 and March 2018. The remaining unfunded capital commitments of the Trust total approximately \$416,000 for 62 individual contracts as of June 30, 2014.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2014 and 2013 and the target allocation for fiscal 2015, by asset category, are as follows:

| Asset Category | Target<br>Allocation | Percentage of Plan Assets<br>At Year-End |      |
|----------------|----------------------|--|------|
|                | 2015                 | 2014                                     | 2013 |
| Growth         | 50%                  | <b>53%</b>                               | 52%  |
| Deflation      | 30                   | <b>29</b>                                | 29   |
| Inflation      | 20                   | <b>18</b>                                | 19   |
| Total          | 100%                 | <b>100%</b>                              | 100% |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

The System Plans' assets in the Other Trusts are invested in portfolios designed to best serve the participants of the System Plans' through a long-term investment strategy designed to ensure that funds are available to pay benefits as they become due and to maximize the total return at a prudent level of investment risk. The System Plans' assets invested in the Other Trusts are diversified among various assets classes based upon established investment guidelines.

| Asset Category | Target<br>Allocation | Percentage of Plan Assets<br>At Year-End |      |
|----------------|----------------------|--|------|
|                | 2015                 | 2014                                     | 2013 |
| Cash           | 1%                   | 1%                                       | 6%   |
| Growth         | 62                   | 67                                       | 61   |
| Income         | 32                   | 28                                       | 25   |
| Other          | 5                    | 4  | 8    |
| Total          | 100%                 | 100%                                     | 100% |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

The following tables summarize fair value measurements at June 30, 2014 and 2013, by asset class and by level, for the System Plans' assets and liabilities. As also discussed in the Fair Value Measurements note, the System follows the three-level fair value hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values. The inputs and valuation techniques discussed in the Fair Value Measurements note also apply to the System Plans' assets and liabilities as presented in the following tables.

|   | Level 1    | Level 2   | Level 3   | Total               |
|---|------------|-----------|-----------|---------------------|
| <b>June 30, 2014</b>  |            |           |           |                     |
| Short-term investments                                      | \$ 191,495 | \$ 399    | \$ —      | \$ 191,894          |
| Derivatives receivable                                      | 7          | 15,245    | 19,404    | 34,656              |
| U.S. government, state, municipal<br>and agency obligations | —          | 1,704,131 | —         | 1,704,131           |
| Corporate and foreign fixed<br>income securities            | —          | 673,696   | 47,850    | 721,546             |
| Asset-backed securities                                     | —          | 232,484   | 24,080    | 256,564             |
| Equity securities   | 1,649,136  | 395,372   | 3,045     | 2,047,553           |
| Alternative investments and other investments:              |            |           |           |                     |
| Private equity and real estate funds                        | —          | —         | 909,980   | 909,980             |
| Hedge funds   | —          | —         | 1,448,274 | 1,448,274           |
| Commodities funds and other investments                     | —          | —         | 295,563   | 295,563             |
| Assets not at fair value                                    |            |           |           | 154,023             |
| Total   |            |           |           | <u>7,764,184</u>    |
| Derivatives payable   | 26         | 160,907   | 2,980     | 163,913             |
| Investments sold, not yet purchased                         | 1,555      | —         | —         | 1,555               |
| Liabilities not at fair value                               |            |           |           | 133,601             |
| Total   |            |           |           | <u>299,069</u>      |
| Fair value of plan assets                                   |            |           |           | <u>\$ 7,465,115</u> |

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

## 9. Retirement Plans (continued)

|   | Level 1    | Level 2   | Level 3   | Total               |
|---|------------|-----------|-----------|---------------------|
| <b>June 30, 2013</b>  |            |           |           |                     |
| Short-term investments                                      | \$ 324,803 | \$ 20,331 | \$ —      | \$ 345,134          |
| Derivatives receivable                                      | 1,078      | 337       | 21,059    | 22,474              |
| U.S. government, state, municipal<br>and agency obligations | —          | 1,671,493 | 1,266     | 1,672,759           |
| Corporate and foreign fixed<br>income securities            | 25,843     | 566,812   | 53,729    | 646,384             |
| Asset-backed securities                                     | —          | 226,920   | 22,838    | 249,758             |
| Equity securities   | 1,317,933  | 18,741    | 2,936     | 1,339,610           |
| Alternative investments and other investments:              |            |           |           |                     |
| Private equity and real estate funds                        | —          | —         | 747,864   | 747,864             |
| Hedge funds   | 34,708     | —         | 1,452,190 | 1,486,898           |
| Commodities funds and other investments                     | —          | 316,971   | 271,282   | 588,253             |
| Assets not at fair value                                    |            |           |           | 334,875             |
| Total   |            |           |           | <u>7,434,009</u>    |
| Derivatives payable   | 68         | 300       | 248,988   | 249,356             |
| Investments sold, not yet purchased                         | 3,794      | (71)      | —         | 3,723               |
| Liabilities not at fair value                               |            |           |           | 438,546             |
| Total   |            |           |           | <u>691,625</u>      |
| Fair value of plan assets                                   |            |           |           | <u>\$ 6,742,384</u> |

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

## 9. Retirement Plans (continued)

For the years ended June 30, 2014 and 2013, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

|   | Net<br>Derivatives | U.S.<br>Government,<br>State,<br>Municipal<br>and Agency<br>Obligations | Corporate<br>and Foreign<br>Fixed<br>Income<br>Securities | Asset-<br>Backed<br>Securities | Equity<br>Securities | Private<br>Equity and<br>Real<br>Estate<br>Funds | Hedge<br>Funds | Commodities<br>Funds and<br>Other<br>Investments |
|---|--------------------|---|---|--------------------------------|----------------------|--|----------------|--|
| <b>June 30, 2014</b>  |                    |   |   |                                |                      |  |                |  |
| Beginning balance   | \$ (227,929)       | \$ 1,266  | \$ 53,729   | \$ 22,838                      | \$ 2,936             | \$ 747,864                                       | \$ 1,452,190   | \$ 271,282                                       |
| Total actual return on assets   | 123,117            | 23  | 5,784   | 1,182                          | 353                  | 70,779   | 105,507        | 21,672   |
| Purchases, issuances, and settlements   | (108,811)          | (1,289)   | (9,038)   | 16,599                         | (351)                | 91,337   | (109,423)      | 2,609  |
| Transfers into (out of) Level 3   | 230,047            | —   | (2,625)   | (16,539)                       | 107                  | —  | —              | —  |
| Ending balance  | \$ 16,424          | \$ —  | \$ 47,850   | \$ 24,080                      | \$ 3,045             | \$ 909,980                                       | \$ 1,448,274   | \$ 295,563                                       |
| Actual return on plan assets relating to<br>plan assets still held at June 30, 2014 | \$ 16,515          | \$ —  | \$ 2,823  | \$ 869                         | \$ 555               | \$ 56,528  | \$ 146,882     | \$ (20,343)                                      |
|   |                    |   |   |                                |                      |  |                |  |
|   | Net<br>Derivatives | U.S.<br>Government,<br>State,<br>Municipal<br>and Agency<br>Obligations | Corporate<br>and Foreign<br>Fixed<br>Income<br>Securities | Asset-<br>Backed<br>Securities | Equity<br>Securities | Private<br>Equity and<br>Real<br>Estate<br>Funds | Hedge<br>Funds | Commodities<br>Funds and<br>Other<br>Investments |
| <b>June 30, 2013</b>  |                    |   |   |                                |                      |  |                |  |
| Beginning balance   | \$ 8,174           | \$ 1,903  | \$ 28,308   | \$ 14,243                      | \$ 1,514             | \$ 546,165                                       | \$ 1,187,124   | \$ 282,320                                       |
| Acquisitions  | —                  | —   | —   | —                              | —                    | 37,048   | —              | 9,994  |
| Total actual return on assets   | (154,133)          | 130   | (171)   | (89)                           | 5                    | 54,153   | 147,977        | (21,032)   |
| Purchases, issuances, and settlements   | (122,486)          | (767)   | 31,994  | 20,384                         | 1,417                | 98,174   | 156,513        | —  |
| Transfers into (out of) Level 3   | 40,516             | —   | (6,402)   | (11,700)                       | —                    | 12,324   | (39,424)       | —  |
| Ending balance  | \$ (227,929)       | \$ 1,266  | \$ 53,729   | \$ 22,838                      | \$ 2,936             | \$ 747,864                                       | \$ 1,452,190   | \$ 271,282                                       |
| Actual return on plan assets relating to<br>plan assets still held at June 30, 2013 | \$ (280,606)       | \$ 59   | \$ (2,202)  | \$ (115)                       | \$ 227               | \$ 54,968  | \$ 147,248     | \$ (21,024)                                      |



## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

The Trust has entered into a series of interest rate swap agreements with a net notional amount of \$2,958,450. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 75% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

The expected long-term rate of return on the System Plans' assets is based on historical and projected rates of return for current and planned asset categories in the investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

Information about the expected cash flows for the System Plans follows:

|                                      |           |
|--------------------------------------|-----------|
| Expected employer contributions 2015 | \$ 41,714 |
| Expected benefit payments:           |           |
| 2015                                 | 502,046   |
| 2016                                 | 478,701   |
| 2017                                 | 494,566   |
| 2018                                 | 502,342   |
| 2019                                 | 506,546   |
| 2020-2024                            | 2,499,041 |

The contribution amount above includes amounts paid to Trusts. The benefit payment amounts above reflect the total benefits expected to be paid from Trusts.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**9. Retirement Plans (continued)****Other Postretirement Benefit Plans**

In addition to the retirement plan described above, certain Health Ministries sponsor postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2014 and 2013, is \$44,473 and \$45,308, respectively. The net asset included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2014, is \$756, while the net obligation included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2013, is \$6,624. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2014, was a decrease of \$1,471.

**Defined-Contribution Plans**

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. There are three primary types of contributions to these plans: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and, for certain entities, increases over specified periods of employee service. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period, and participants become fully vested in these employer contributions immediately. Expenses for the defined-contribution plans were \$280,223 and \$193,856 during 2014 and 2013, respectively.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**10. Self-Insurance Programs**

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides its self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 6% for the System, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are discounted at 6% in 2014 and 2013 for the System. Those entities not participating in the self-insured programs are insured under separate policies.

**Professional and General Liability Programs**

Professional and general liability coverage is provided on a claims-made or occurrence basis through a wholly owned onshore trust and through AHIL.

The wholly owned onshore trust has a self-insured retention of \$10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to \$205,000. AHIL retains \$5,000 per occurrence and \$5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Sunflower Assurance, Inc. (Sunflower) was acquired when Marian Health System joined the System. Sunflower provided excess coverage with limits up to \$75,000 above the primary coverage for Via Christi Health and retained 10% of the first reinsurance layer of \$10,000 on a quota share basis. The remaining excess coverage was reinsured by commercial carriers. As of October 1, 2013, Via Christi's primary and excess medical professional and general liability and employed physician programs were integrated into the System trust and AHIL. After January 1, 2014, the employer stop loss and employee life insurance coverage provided by Sunflower to Via Christi were not renewed and are in run off.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**10. Self-Insurance Programs (continued)**

Self-insured entities in the states of Indiana, Kansas, Pennsylvania, and Wisconsin are provided professional liability coverage with limits in compliance with participation in the Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit, except the Fund in Kansas, which only covers claims up to the first \$1,000 and then the trust and AHIL cover amounts above \$1,000.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of \$99,568 and \$68,437 for the years ended June 30, 2014 and 2013, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of \$604,846 and \$614,913 at June 30, 2014 and 2013, respectively.

AHIL also offers physician professional liability coverage through insurance or reinsurance arrangements to nonemployed physicians practicing at the System's various facilities, primarily in Michigan, Indiana, Texas, Florida and Illinois. Coverage is offered to physicians with limits ranging from \$100 per claim to \$1,000 per claim with various aggregate limits. Beginning October 1, 2013, AHIL offered similar coverage to employed physicians from Marian Health System in Kansas and Wisconsin.

Edessa Insurance Company Ltd. (Edessa) was acquired as part of the Alexian Brothers business combination effective January 1, 2012. Effective July 1, 2012, the self-insurance programs of Edessa were consolidated into AHIL, and Edessa ceased operations.

## Ascension

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)**10. Self-Insurance Programs (continued)****Workers' Compensation**

Workers' compensation coverage is provided on an occurrence basis through a grantor trust. The self-insured trust provides coverage up to \$1,500 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Prior to October 1, 2013, workers' compensation coverage for Marian Health System was self-insured or commercially insured up to various limits and excess insurance against catastrophic loss was obtained through commercial insurers. As of October 1, 2013, the Marian Systems are provided coverage under the self-insured trust. Premium payments made to the trust are expensed and represent claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of \$42,052 and \$41,699 for the years ended June 30, 2014 and 2013, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of \$114,237 and \$137,825 at June 30, 2014 and 2013, respectively.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**11. Lease Commitments**

Future minimum payments under noncancelable operating leases with terms of one year or more are as follows:

|                      |                   |
|----------------------|-------------------|
| Year ending June 30: |                   |
| 2015                 | \$ 188,138        |
| 2016                 | 172,635           |
| 2017                 | 138,931           |
| 2018                 | 104,991           |
| 2019                 | 75,410            |
| Thereafter           | 209,295           |
| Total                | <u>\$ 889,400</u> |

Certain System entities are lessees under operating lease agreements for the use of space in buildings owned by third parties, including medical office buildings (MOBs) and medical and information technology equipment. In addition, certain System entities have subleased space within buildings where the entity has a current operating lease commitment. Certain System entities are also lessors under operating lease agreements, primarily ground leases related to third-party-owned MOBs on land owned by the System entity.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**11. Lease Commitments (continued)**

The System's future minimum noncancelable payments associated with operating leases where a System entity is the lessee, as well as future minimum noncancelable receipts associated with operating leases where a System entity is the sublessor or lessor, are presented in the table that follows. Future minimum payments and receipts relate to noncancelable leases with terms of one year or more.

|                      | <b>Future<br/>Payments<br/>Where the<br/>System is<br/>Lessee</b> | <b>Future Receipts<br/>Where the<br/>System is<br/>Sublessor/<br/>Lessor</b> | <b>Net Future<br/>Payments<br/>(Receipts)</b> |
|----------------------|---|--|---|
| Year ending June 30: |   |  |   |
| 2015                 | \$ 188,138  | \$ 50,118  | \$ 138,020                                    |
| 2016                 | 172,635   | 41,175   | 131,460                                       |
| 2017                 | 138,931   | 32,104   | 106,827                                       |
| 2018                 | 104,991   | 26,333   | 78,658  |
| 2019                 | 75,410  | 20,626   | 54,784  |
| Thereafter           | 209,295   | 300,833  | (91,538)                                      |
| Total                | <u>\$ 889,400</u>   | <u>\$ 471,189</u>  | <u>\$ 418,211</u>                             |

Rental expense under operating leases amounted to \$391,928 and \$347,087 in 2014 and 2013, respectively.

**12. Contingencies and Commitments**

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. Regulatory investigations also occur from time to time. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the System's Consolidated Balance Sheet.

In March 2013, the System and some of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of its System Plans. On May 9, 2014, the United States District Court, Eastern District of Michigan, Southern Division, issued its Decision and Order Granting Defendants' Motion to Dismiss, which effectively dismissed the case against the System. On June 11, 2014, the plaintiff in the case filed a Notice of Appeal, and the appeal is pending. Regardless of the outcome of such appeal, the System does not believe that this matter will have a material adverse effect on the System's financial position or results of operations.

## Ascension

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**12. Contingencies and Commitments (continued)**

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICD) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, identified System hospitals are reviewing applicable medical records and responding to the DOJ. The DOJ's investigation spans a time frame beginning in 2003 and extending through the present time. To date, four System hospitals have entered into settlements with the DOJ and the System is having settlement discussions with the DOJ regarding two other System hospitals subject to the ICD investigation.

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for the System's obligation under these guarantees were \$37,623 and \$44,553 at June 30, 2014 and 2013, respectively, and are included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets. The maximum amount of future payments that the System could be required to make under these guarantees is approximately \$95,700.

The System entered into agreements with sponsors for support through January 2017. The System's obligation under these agreements totals \$31,000 at June 30, 2014, and is included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheet.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$190,700.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 26 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2014:

|  |           |
|--|-----------|
| Hospital de la Concepción 2000 Series A debt guarantee | \$ 29,240 |
| St. Vincent de Paul Series 2000A debt guarantee        | 28,300    |
| Other guarantees and commitments                       | 36,200    |



## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Ascension Health Alliance d/b/a Ascension

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs, the Details of Consolidated Balance Sheets, and the Details of Consolidated Statements of Operations and Changes in Net Assets are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst & Young LLP*

September 11, 2014

## Ascension

Schedule of Net Cost of Providing Care of Persons  
Living in Poverty and Other Community Benefit Programs  
(Dollars in Thousands)

Years Ended June 30, 2014 and 2013

The net cost of providing care to persons living in poverty and other community benefit programs is as follows:

|   | <b>Year Ended June 30,</b> |                            |
|---|----------------------------|----------------------------|
|   | <b>2014</b>                | <b>2013</b>                |
| Traditional charity care provided   | \$ 580,606                 | \$ 524,605                 |
| Unpaid cost of public programs for persons living in poverty              | 641,981                    | 488,959                    |
| Other programs for persons living in poverty and other vulnerable persons | 117,990                    | 89,923                     |
| Community benefit programs  | <u>480,866</u>             | <u>383,583</u>             |
| Care of persons living in poverty and other community benefit programs    | <u><u>\$ 1,821,443</u></u> | <u><u>\$ 1,487,070</u></u> |

## Ascension

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

June 30, 2014

|  | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Reclassification | Consolidated<br>Arlington Heights | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|--|---------------------------|---|------------------|-----------------------------------|---------------------------|----------------------------|-----------------------|
| <b>Assets</b>  |                           |   |                  |                                   |                           |                            |                       |
| <b>Current assets:</b>   |                           |   |                  |                                   |                           |                            |                       |
| Cash and cash equivalents  | \$ 618,418                | \$ 351,470  | \$ —             | \$ 3,940                          | \$ 10,161                 | \$ 15,119                  | \$ 7,313              |
| Short-term investments   | 109,081                   | 51,860  | —                | 5,497                             | —                         | 29                         | 500                   |
| Accounts receivable, less allowances for<br>uncollectible accounts (\$1,260,407 in 2014) | 2,419,616                 | 1,165,698   | —                | 120,498                           | 57,963                    | 72,165                     | 46,071                |
| Inventories  | 332,739                   | 157,232   | —                | 16,787                            | 7,727                     | 12,067                     | 5,764                 |
| Due from brokers   | 343,757                   | 343,757   | —                | —                                 | —                         | —                          | —                     |
| Estimated third-party payor settlements  | 236,559                   | 150,491   | —                | 445                               | —                         | 5,166                      | 4,297                 |
| Other  | 562,367                   | 328,739   | —                | 12,235                            | 14,064                    | 12,297                     | 7,014                 |
| <b>Total current assets</b>  | <b>4,622,537</b>          | <b>2,549,247</b>  | <b>—</b>         | <b>159,402</b>                    | <b>89,915</b>             | <b>116,843</b>             | <b>70,959</b>         |
| <br>Long-term investments  | <br>15,327,255            | <br>9,009,634   | <br>6,041,614    | <br>19,694                        | <br>16,877                | <br>18,693                 | <br>844               |
| <br>Interest in investments held by<br>Ascension   | <br>—                     | <br>—   | <br>(6,041,614)  | <br>369,491                       | <br>202,929               | <br>195,012                | <br>177,644           |
| <br>Property and equipment, net  | <br>8,410,629             | <br>4,076,941   | <br>—            | <br>692,474                       | <br>230,893               | <br>343,331                | <br>153,306           |
| <br><b>Other assets:</b>   |                           |   |                  |                                   |                           |                            |                       |
| Investment in unconsolidated entities  | 649,888                   | 321,157   | —                | 5,163                             | 16,496                    | 9,609                      | 15,382                |
| Capitalized software costs, net  | 778,705                   | 504,301   | —                | 9,354                             | 2,184                     | 1,022                      | 12,740                |
| Other  | 1,509,849                 | 947,716   | —                | 18,163                            | 18,548                    | 12,989                     | 15,686                |
| <b>Total other assets</b>  | <b>2,938,442</b>          | <b>1,773,174</b>  | <b>—</b>         | <b>32,680</b>                     | <b>37,228</b>             | <b>23,620</b>              | <b>43,808</b>         |
| <br><b>Total assets</b>  | <br><b>\$ 31,298,863</b>  | <br><b>\$ 17,408,996</b>                                      | <br><b>\$ —</b>  | <br><b>\$ 1,273,741</b>           | <br><b>\$ 577,842</b>     | <br><b>\$ 697,499</b>      | <br><b>\$ 446,561</b> |

| Consolidated<br>Indiana | Consolidated<br>Kalamazoo | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|---------------------------|--------------------------------------|----------------------|---------------------------------|-------------------------|
| \$ 77,988               | \$ 9,502                  | \$ 3,519                 | \$ 2,973                  | \$ 6,126               | \$ 19,242                 | \$ 11,118                            | \$ 1,434             | \$ 14,740                       | \$ 83,773               |
| 24,088                  | —                         | 552                      | —                         | —                      | 86                        | 12,221                               | 2,717                | —                               | 11,531                  |
| 371,346                 | 68,915                    | 25,177                   | 87,669                    | 31,049                 | 142,291                   | 34,001                               | 43,049               | 26,004                          | 127,720                 |
| 46,718                  | 7,899                     | 3,247                    | 11,453                    | 5,708                  | 18,863                    | 6,615                                | 4,621                | 3,023                           | 25,015                  |
| —                       | —                         | —                        | —                         | —                      | —                         | —                                    | —                    | —                               | —                       |
| 18,433                  | 8,752                     | —                        | 742                       | —                      | 13,615                    | 5,634                                | 12,779               | 2,751                           | 13,454                  |
| 64,905                  | 10,022                    | 2,410                    | 16,151                    | 7,662                  | 27,322                    | 12,027                               | 3,040                | 6,158                           | 38,321                  |
| 603,478                 | 105,090                   | 34,905                   | 118,988                   | 50,545                 | 221,419                   | 81,616                               | 67,640               | 52,676                          | 299,814                 |
| 103,181                 | 24,353                    | 319                      | 18,480                    | 4,371                  | 46,681                    | 8,329                                | 530                  | 3,798                           | 9,857                   |
| 2,743,942               | 113,811                   | 69,863                   | 128,250                   | 180,136                | 675,612                   | 283,610                              | 173,750              | (4,050)                         | 731,614                 |
| 628,940                 | 179,507                   | 43,596                   | 612,917                   | 65,489                 | 470,030                   | 102,627                              | 99,028               | 59,678                          | 651,872                 |
| 82,229                  | 16,199                    | —                        | 25,777                    | 898                    | 37,176                    | 13,301                               | 11,333               | 3,071                           | 92,097                  |
| 72,537                  | 720                       | 2,686                    | 31,732                    | 5,130                  | 38,015                    | 17,873                               | 2,832                | 13,842                          | 63,737                  |
| 241,900                 | 14,579                    | 15,963                   | 31,164                    | 18,990                 | 53,226                    | 22,549                               | 12,447               | 19,729                          | 66,200                  |
| 396,666                 | 31,498                    | 18,649                   | 88,673                    | 25,018                 | 128,417                   | 53,723                               | 26,612               | 36,642                          | 222,034                 |
| \$ 4,476,207            | \$ 454,259                | \$ 167,332               | \$ 967,308                | \$ 325,559             | \$ 1,542,159              | \$ 529,905                           | \$ 367,560           | \$ 148,744                      | \$ 1,915,191            |

## Ascension

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

June 30, 2014

|   | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Consolidated<br>Arlington Heights | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|---|---------------------------|---|-----------------------------------|---------------------------|----------------------------|-----------------------|
| <b>Liabilities and net assets</b>                             |                           |   |                                   |                           |                            |                       |
| <b>Current liabilities:</b>                                   |                           |   |                                   |                           |                            |                       |
| Current portion of long-term debt                             | \$ 91,532                 | \$ 45,503   | \$ 4,916                          | \$ 1,120                  | \$ 1,656                   | \$ 4,162              |
| Long-term debt subject to short-term remarketing arrangements | 1,345,530                 | 1,345,530   | —                                 | —                         | —                          | —                     |
| Accounts payable and accrued liabilities                      | 2,293,663                 | 1,424,604   | 90,893                            | 45,091                    | 53,443                     | 45,326                |
| Estimated third-party payor settlements                       | 450,054                   | 199,336   | 80,106                            | 80                        | 27,284                     | 7,961                 |
| Due to brokers  | 332,169                   | 332,171   | —                                 | —                         | —                          | —                     |
| Current portion of self-insurance liabilities                 | 226,856                   | 179,459   | 5,466                             | 2,292                     | 1,139                      | 2,441                 |
| Other   | 274,645                   | 119,014   | 8,877                             | 10,650                    | 13,607                     | 2,399                 |
| <b>Total current liabilities</b>                              | <b>5,014,449</b>          | <b>3,645,617</b>  | <b>190,258</b>                    | <b>59,233</b>             | <b>97,129</b>              | <b>62,289</b>         |
| <b>Noncurrent liabilities:</b>                                |                           |   |                                   |                           |                            |                       |
| Long-term debt (senior and subordinated)                      | 4,994,913                 | 1,883,940   | 476,212                           | 77,150                    | 114,106                    | 286,710               |
| Self-insurance liabilities                                    | 541,859                   | 487,284   | 21,900                            | 2,182                     | 3,246                      | 3,035                 |
| Pension and other postretirement liabilities                  | 428,679                   | 272,905   | 14,296                            | —                         | 473                        | 35                    |
| Other   | 1,343,826                 | 960,998   | 57,173                            | 9,976                     | 67,130                     | 6,098                 |
| <b>Total noncurrent liabilities</b>                           | <b>7,309,277</b>          | <b>3,605,127</b>  | <b>569,581</b>                    | <b>89,308</b>             | <b>184,955</b>             | <b>295,878</b>        |
| <b>Total liabilities</b>                                      | <b>12,323,726</b>         | <b>7,250,744</b>  | <b>759,839</b>                    | <b>148,541</b>            | <b>282,084</b>             | <b>358,167</b>        |
| <b>Net assets:</b>  |                           |   |                                   |                           |                            |                       |
| Unrestricted  |                           |   |                                   |                           |                            |                       |
| Controlling interest  | 16,736,190                | 8,210,953   | 504,728                           | 421,417                   | 401,934                    | 84,594                |
| Noncontrolling interests                                      | 1,656,106                 | 1,568,493   | (507)                             | —                         | 1,158                      | —                     |
| Unrestricted net assets                                       | 18,392,296                | 9,779,446   | 504,221                           | 421,417                   | 403,092                    | 84,594                |
| Temporarily restricted  | 391,226                   | 226,244   | 8,979                             | 7,419                     | 10,836                     | 3,254                 |
| Permanently restricted  | 191,615                   | 152,562   | 702                               | 465                       | 1,487                      | 546                   |
| <b>Total net assets</b>                                       | <b>18,975,137</b>         | <b>10,158,252</b>   | <b>513,902</b>                    | <b>429,301</b>            | <b>415,415</b>             | <b>88,394</b>         |
| <b>Total liabilities and net assets</b>                       | <b>\$ 31,298,863</b>      | <b>\$ 17,408,996</b>  | <b>\$ 1,273,741</b>               | <b>\$ 577,842</b>         | <b>\$ 697,499</b>          | <b>\$ 446,561</b>     |

| Consolidated<br>Indiana | Consolidated<br>Kalamazoo | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|---------------------------|--------------------------------------|----------------------|---------------------------------|-------------------------|
| \$ 6,655                | \$ 2,341                  | \$ 378                   | \$ 4,531                  | \$ 1,004               | \$ 6,629                  | \$ 1,992                             | \$ 742               | \$ 906                          | \$ 8,997                |
| 199,375                 | 48,212                    | 10,409                   | 36,411                    | 16,191                 | 92,926                    | 26,072                               | 20,943               | 30,289                          | 153,478                 |
| 71,731                  | 12,350                    | 5,605                    | 433                       | 2,299                  | 16,713                    | 9,768                                | 1,202                | 9,993                           | 5,193                   |
| 8,893                   | 1,352                     | 480                      | 2,370                     | 493                    | (2)                       | 1,454                                | 595                  | 995                             | 9,309                   |
| 64,347                  | 434                       | 997                      | 12,035                    | 7,260                  | 20,968                    | 1,560                                | 7,159                | 2,022                           | 3,316                   |
| 351,001                 | 64,689                    | 17,869                   | 55,780                    | 27,247                 | 147,352                   | 40,846                               | 30,641               | 44,205                          | 180,293                 |
| 458,502                 | 161,280                   | 26,028                   | 312,163                   | 69,202                 | 401,397                   | 124,862                              | 51,093               | 62,439                          | 489,829                 |
| 81,706                  | 3,110                     | 144                      | 6                         | 1,627                  | 2,997                     | 1,703                                | 2,057                | 2,568                           | 10,000                  |
| 79,903                  | 47,431                    | —                        | —                         | 53                     | 6,219                     | —                                    | 5,561                | —                               | —                       |
| 620,111                 | 235,191                   | 28,575                   | 334,760                   | 82,778                 | 439,208                   | 134,535                              | 68,120               | 71,857                          | 549,293                 |
| 971,112                 | 299,880                   | 46,444                   | 390,540                   | 110,025                | 586,560                   | 175,381                              | 98,761               | 116,062                         | 729,586                 |
| 3,380,925               | 148,782                   | 120,569                  | 558,288                   | 213,522                | 916,688                   | 345,694                              | 265,674              | 27,991                          | 1,134,431               |
| 47,716                  | —                         | —                        | —                         | —                      | 7,379                     | —                                    | —                    | —                               | 31,867                  |
| 3,428,641               | 148,782                   | 120,569                  | 558,288                   | 213,522                | 924,067                   | 345,694                              | 265,674              | 27,991                          | 1,166,298               |
| 57,415                  | 5,300                     | 319                      | 12,676                    | 2,012                  | 29,231                    | 8,159                                | 2,351                | 4,691                           | 12,340                  |
| 19,039                  | 297                       | —                        | 5,804                     | —                      | 2,301                     | 671                                  | 774                  | —                               | 6,967                   |
| 3,505,095               | 154,379                   | 120,888                  | 576,768                   | 215,534                | 955,599                   | 354,524                              | 268,799              | 32,682                          | 1,185,605               |
| \$ 4,476,207            | \$ 454,259                | \$ 167,332               | \$ 967,308                | \$ 325,559             | \$ 1,542,159              | \$ 529,905                           | \$ 367,560           | \$ 148,744                      | \$ 1,915,191            |

## Ascension

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

June 30, 2013

|  | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Reclassification | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint | Consolidated<br>Kalamazoo |
|--|---------------------------|---|------------------|---------------------------|----------------------------|-----------------------|---------------------------|
| <b>Assets</b>  |                           |   |                  |                           |                            |                       |                           |
| <b>Current assets:</b>   |                           |   |                  |                           |                            |                       |                           |
| Cash and cash equivalents  | \$ 753,555                | \$ 227,969  | \$ —             | \$ 14,826                 | \$ 13,436                  | \$ 5,136              | \$ 11,691                 |
| Short-term investments   | 113,825                   | 56,921  | —                | —                         | —                          | 500                   | —                         |
| Accounts receivable, less allowances for<br>uncollectible accounts (\$1,297,609 in 2013) | 2,292,521                 | 1,232,225   | —                | 53,294                    | 71,872                     | 48,531                | 63,725                    |
| Inventories  | 297,233                   | 147,923   | —                | 7,633                     | 12,292                     | 6,714                 | 8,050                     |
| Due from brokers   | 178,380                   | 178,380   | —                | —                         | —                          | —                     | —                         |
| Estimated third-party payor settlements  | 119,379                   | 56,885  | —                | —                         | 8,200                      | 9,321                 | 6,897                     |
| Other  | 1,026,397                 | 790,587   | —                | 5,293                     | 13,554                     | 9,805                 | 10,261                    |
| <b>Total current assets</b>  | <b>4,781,290</b>          | <b>2,690,890</b>  | <b>—</b>         | <b>81,046</b>             | <b>119,354</b>             | <b>80,007</b>         | <b>100,624</b>            |
| Long-term investments  | 14,156,447                | 9,955,849   | 3,686,316        | 15,104                    | 16,508                     | 1,993                 | 21,788                    |
| Interest in investments held by<br>Ascension   | —                         | —   | (3,686,316)      | 180,235                   | 188,196                    | 188,395               | 139,959                   |
| Property and equipment, net  | 8,274,854                 | 3,905,769   | —                | 240,204                   | 354,150                    | 159,567               | 161,025                   |
| <b>Other assets:</b>   |                           |   |                  |                           |                            |                       |                           |
| Investment in unconsolidated entities  | 628,772                   | 314,276   | —                | 18,717                    | 5,889                      | 14,535                | 16,876                    |
| Capitalized software costs, net  | 718,122                   | 502,282   | —                | 1,162                     | 1,906                      | 9,590                 | 157                       |
| Other  | 1,487,886                 | 1,150,309   | —                | 12,830                    | 10,309                     | 14,125                | 23,144                    |
| <b>Total other assets</b>  | <b>2,834,780</b>          | <b>1,966,867</b>  | <b>—</b>         | <b>32,709</b>             | <b>18,104</b>              | <b>38,250</b>         | <b>40,177</b>             |
| <b>Total assets</b>  | <b>\$ 30,047,371</b>      | <b>\$ 18,519,375</b>  | <b>\$ —</b>      | <b>\$ 549,298</b>         | <b>\$ 696,312</b>          | <b>\$ 468,212</b>     | <b>\$ 463,573</b>         |



| Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Ministry | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Tulsa | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|--------------------------|---------------------------|--------------------------|------------------------|---------------------------|--------------------------------------|-----------------------|----------------------|---------------------------------|-------------------------|
| \$ 5,737<br>565          | \$ 4,107<br>-             | \$ 301,544<br>24,023     | \$ 1,144<br>-          | \$ 12,393<br>253          | \$ 7,949<br>11,012                   | \$ 30,935<br>7,916    | \$ 3,583<br>1,455    | \$ 1,201<br>-                   | \$ 111,904<br>11,180    |
| 21,606                   | 89,751                    | 169,137                  | 31,632                 | 138,556                   | 38,787                               | 129,596               | 43,103               | 28,526                          | 132,180                 |
| 2,875                    | 10,542                    | 27,432                   | 6,168                  | 15,816                    | 6,404                                | 15,766                | 5,027                | 2,740                           | 21,851                  |
| -                        | -                         | -                        | -                      | -                         | -                                    | -                     | -                    | -                               | -                       |
| -                        | 1,243                     | 6,299                    | 3,204                  | 7,637                     | 5,075                                | 2,906                 | 8,192                | 1,327                           | 2,193                   |
| 1,682                    | 24,876                    | 55,760                   | 5,225                  | 26,362                    | 8,292                                | 22,955                | 1,677                | 5,439                           | 44,629                  |
| 32,465                   | 130,519                   | 584,195                  | 47,373                 | 201,017                   | 77,519                               | 210,074               | 63,037               | 39,233                          | 323,937                 |
| 593                      | 17,864                    | 287,345                  | 3,552                  | 40,060                    | 6,145                                | 69,731                | 795                  | 2,905                           | 29,899                  |
| 75,636                   | 111,976                   | 515,452                  | 165,956                | 588,464                   | 289,425                              | 378,162               | 146,311              | 45,419                          | 672,730                 |
| 39,901                   | 633,556                   | 703,634                  | 64,876                 | 468,500                   | 109,094                              | 660,947               | 102,293              | 52,434                          | 618,904                 |
| -                        | 24,691                    | 14,223                   | 884                    | 36,252                    | 13,768                               | 76,877                | 10,050               | 3,670                           | 78,064                  |
| 2,404                    | 32,951                    | 29,622                   | 4,631                  | 39,213                    | 17,492                               | 26,638                | 3,160                | 12,821                          | 34,093                  |
| 14,623                   | 16,050                    | 86,082                   | 13,435                 | 39,223                    | 12,229                               | 43,454                | 13,888               | 12,567                          | 25,618                  |
| 17,027                   | 73,692                    | 129,927                  | 18,950                 | 114,688                   | 43,489                               | 146,969               | 27,098               | 29,058                          | 137,775                 |
| \$ 165,622               | \$ 967,607                | \$ 2,220,553             | \$ 300,707             | \$ 1,412,729              | \$ 525,672                           | \$ 1,465,883          | \$ 339,534           | \$ 169,049                      | \$ 1,783,245            |

## Ascension

Details of Consolidated Balance Sheet (continued)  
*(Dollars in Thousands)*

June 30, 2013

|  | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint | Consolidated<br>Kalamazoo |
|--|---------------------------|---|---------------------------|----------------------------|-----------------------|---------------------------|
| <b>Liabilities and net assets</b>                                |                           |   |                           |                            |                       |                           |
| <b>Current liabilities:</b>                                      |                           |   |                           |                            |                       |                           |
| Current portion of long-term debt                                | \$ 89,869                 | \$ 28,757   | \$ 1,143                  | \$ 1,692                   | \$ 4,248              | \$ 2,391                  |
| Long-term debt subject to short-term<br>remarketing arrangements | 1,187,125                 | 1,187,125   | —                         | —                          | —                     | —                         |
| Accounts payable and accrued liabilities                         | 2,278,242                 | 1,436,176   | 40,421                    | 51,261                     | 56,098                | 45,622                    |
| Estimated third-party payor settlements                          | 455,432                   | 361,331   | 117                       | 16,006                     | 8,984                 | 13,404                    |
| Due to brokers   | 493,420                   | 493,420   | —                         | —                          | —                     | —                         |
| Current portion of self-insurance liabilities                    | 210,115                   | 172,183   | 1,934                     | 1,386                      | 2,553                 | 1,308                     |
| Other  | 639,566                   | 434,739   | 15,904                    | 26,034                     | 62                    | 993                       |
| <b>Total current liabilities</b>                                 | <b>5,353,769</b>          | <b>4,113,731</b>  | <b>59,519</b>             | <b>96,379</b>              | <b>71,945</b>         | <b>63,718</b>             |
| <b>Noncurrent liabilities:</b>                                   |                           |   |                           |                            |                       |                           |
| Long-term debt (senior and subordinated)                         | 5,278,304                 | 1,841,784   | 78,270                    | 115,834                    | 290,872               | 163,683                   |
| Self-insurance liabilities                                       | 553,706                   | 491,977   | 2,182                     | 3,284                      | 3,311                 | 3,204                     |
| Pension and other postretirement liabilities                     | 554,368                   | 341,517   | —                         | 2,802                      | 9,752                 | 48,437                    |
| Other  | 1,178,597                 | 846,176   | 8,285                     | 66,784                     | 6,319                 | 30,686                    |
| <b>Total noncurrent liabilities</b>                              | <b>7,564,975</b>          | <b>3,521,454</b>  | <b>88,737</b>             | <b>188,704</b>             | <b>310,254</b>        | <b>246,010</b>            |
| <b>Total liabilities</b>   | <b>12,918,744</b>         | <b>7,635,185</b>  | <b>148,256</b>            | <b>285,083</b>             | <b>382,199</b>        | <b>309,728</b>            |
| <b>Net assets:</b>   |                           |   |                           |                            |                       |                           |
| Unrestricted   |                           |   |                           |                            |                       |                           |
| Controlling interest   | 14,986,302                | 9,019,750   | 392,653                   | 393,055                    | 81,365                | 148,880                   |
| Noncontrolling interests   | 1,592,356                 | 1,523,448   | —                         | 1,128                      | —                     | —                         |
| Unrestricted net assets  | 16,578,658                | 10,543,198  | 392,653                   | 394,183                    | 81,365                | 148,880                   |
| Temporarily restricted   | 375,054                   | 245,690   | 7,930                     | 15,613                     | 4,103                 | 4,674                     |
| Permanently restricted   | 174,915                   | 95,302  | 459                       | 1,433                      | 545                   | 291                       |
| <b>Total net assets</b>  | <b>17,128,627</b>         | <b>10,884,190</b>   | <b>401,042</b>            | <b>411,229</b>             | <b>86,013</b>         | <b>153,845</b>            |
| <b>Total liabilities and net assets</b>                          | <b>\$ 30,047,371</b>      | <b>\$ 18,519,375</b>  | <b>\$ 549,298</b>         | <b>\$ 696,312</b>          | <b>\$ 468,212</b>     | <b>\$ 463,573</b>         |

| Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Ministry | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Tulsa | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|--------------------------|---------------------------|--------------------------|------------------------|---------------------------|--------------------------------------|-----------------------|----------------------|---------------------------------|-------------------------|
| \$ 386                   | \$ 4,625                  | \$ 16,198                | \$ 1,041               | \$ 6,400                  | \$ 2,039                             | \$ 8,927              | \$ 757               | \$ 925                          | \$ 10,340               |
| -                        | -                         | -                        | -                      | -                         | -                                    | -                     | -                    | -                               | -                       |
| 10,632                   | 46,909                    | 178,263                  | 16,173                 | 86,651                    | 30,578                               | 96,244                | 21,260               | 33,151                          | 128,803                 |
| 5,652                    | 332                       | 12,276                   | 2,446                  | 16,585                    | 10,225                               | 2,405                 | 897                  | 4,750                           | 22                      |
| -                        | -                         | -                        | -                      | -                         | -                                    | -                     | -                    | -                               | -                       |
| 782                      | 2,762                     | -                        | 479                    | 10,023                    | 1,248                                | 5,500                 | 600                  | 1,028                           | 8,329                   |
| 7,120                    | 13,955                    | 89,771                   | 5,282                  | 27,751                    | 1,578                                | 10,976                | 3,452                | 1,949                           | -                       |
| 24,572                   | 68,583                    | 296,508                  | 25,421                 | 147,410                   | 45,668                               | 124,052               | 26,966               | 41,803                          | 147,494                 |
| 26,406                   | 316,694                   | 710,719                  | 70,208                 | 407,177                   | 127,466                              | 514,433               | 51,835               | 63,345                          | 499,578                 |
| 157                      | 6                         | -                        | 1,561                  | 3,069                     | 1,713                                | 12,385                | 1,950                | 2,426                           | 26,481                  |
| -                        | 3,232                     | 77,463                   | 53                     | 9,652                     | -                                    | 53,595                | 7,865                | -                               | -                       |
| 1,957                    | 20,337                    | 70,949                   | 9,746                  | 19,611                    | 6,684                                | 36,559                | 7,890                | 6,492                           | 40,122                  |
| 28,520                   | 340,269                   | 859,131                  | 81,568                 | 439,509                   | 135,863                              | 616,972               | 69,540               | 72,263                          | 566,181                 |
| 53,092                   | 408,852                   | 1,155,639                | 106,989                | 586,919                   | 181,531                              | 741,024               | 96,506               | 114,066                         | 713,675                 |
| 112,195                  | 540,891                   | 991,800                  | 192,441                | 792,910                   | 337,660                              | 703,926               | 239,989              | 51,219                          | 987,568                 |
| -                        | -                         | 1,790                    | -                      | 2,158                     | -                                    | (89)                  | -                    | -                               | 63,921                  |
| 112,195                  | 540,891                   | 993,590                  | 192,441                | 795,068                   | 337,660                              | 703,837               | 239,989              | 51,219                          | 1,051,489               |
| 335                      | 12,112                    | 20,641                   | 1,277                  | 28,455                    | 5,784                                | 11,022                | 2,288                | 3,764                           | 11,366                  |
| -                        | 5,752                     | 50,683                   | -                      | 2,287                     | 697                                  | 10,000                | 751                  | -                               | 6,715                   |
| 112,530                  | 558,755                   | 1,064,914                | 193,718                | 825,810                   | 344,141                              | 724,859               | 243,028              | 54,983                          | 1,069,570               |
| \$ 165,622               | \$ 967,607                | \$ 2,220,553             | \$ 300,707             | \$ 1,412,729              | \$ 525,672                           | \$ 1,465,883          | \$ 339,534           | \$ 169,049                      | \$ 1,783,245            |

## Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets  
(Dollars in Thousands)

Year Ended June 30, 2014

|   | Consolidated<br>Ascension | Consolidated<br>Ascension less Health<br>Ministries Presented | Consolidated<br>Arlington<br>Heights | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|---|---------------------------|---|--------------------------------------|---------------------------|----------------------------|-----------------------|
| Operating revenue:  |                           |   |                                      |                           |                            |                       |
| Net patient service revenue   | \$ 19,193,307             | \$ 9,067,510  | \$ 1,035,923                         | \$ 427,825                | \$ 678,788                 | \$ 453,861            |
| Less provision for doubtful accounts  | 1,273,354                 | 749,232   | 36,260                               | 22,195                    | 47,647                     | 22,438                |
| Net patient service revenue, less provision for doubtful accounts   | 17,919,953                | 8,318,278   | 999,663                              | 405,630                   | 631,141                    | 431,423               |
| Other revenue   | 2,229,767                 | 1,660,260   | 47,898                               | 10,972                    | 34,186                     | 18,797                |
| Total operating revenue   | 20,149,720                | 9,978,538   | 1,047,561                            | 416,602                   | 665,327                    | 450,220               |
| Operating expenses:   |                           |   |                                      |                           |                            |                       |
| Salaries and wages  | 8,202,294                 | 4,312,146   | 395,857                              | 193,071                   | 225,976                    | 199,705               |
| Employee benefits   | 1,747,739                 | 901,150   | 87,397                               | 31,436                    | 44,878                     | 44,516                |
| Purchased services  | 1,210,276                 | 132,000   | 116,791                              | 30,119                    | 91,303                     | 52,913                |
| Professional fees   | 1,279,459                 | 728,618   | 54,058                               | 15,841                    | 17,945                     | 36,644                |
| Supplies  | 2,822,102                 | 1,304,508   | 132,300                              | 64,005                    | 146,547                    | 64,616                |
| Insurance   | 128,535                   | 77,220  | 13,020                               | 2,872                     | 2,513                      | 934                   |
| Interest  | 194,616                   | 90,152  | 16,272                               | 2,518                     | 7,341                      | 9,372                 |
| Depreciation and amortization   | 899,389                   | 437,997   | 55,594                               | 18,753                    | 33,465                     | 12,824                |
| Other   | 2,901,859                 | 1,790,256   | 124,404                              | 30,356                    | 94,165                     | 26,066                |
| Total operating expenses before impairment, restructuring, and nonrecurring gains (losses), net   | 19,386,269                | 9,774,047   | 995,693                              | 388,971                   | 664,133                    | 447,590               |
| Income (loss) from operations before self-insurance trust fund investment return and impairment restructuring and non recurring gains (losses), net | 763,451                   | 204,491   | 51,868                               | 27,631                    | 1,194                      | 2,630                 |
| Self-insurance trust fund investment return   | 66,174                    | 66,141  | -                                    | -                         | -                          | -                     |
| Impairment, restructuring, and nonrecurring expenses  | (223,834)                 | (185,894)   | (1,496)                              | (3,500)                   | (449)                      | (3,863)               |
| Income (loss) from operations   | 605,791                   | 84,738  | 50,372                               | 24,131                    | 745                        | (1,233)               |
| Nonoperating gains (losses):  |                           |   |                                      |                           |                            |                       |
| Investment return   | 1,515,819                 | 859,416   | 36,580                               | 22,134                    | 21,728                     | 18,495                |
| Loss on extinguishment of debt  | (1,605)                   | (1,715)   | -                                    | -                         | (2)                        | -                     |
| Gain (loss) on interest rate swaps  | (6,020)                   | (5,492)   | (366)                                | (3)                       | (5)                        | (12)                  |
| Income from unconsolidated entities   | 5,539                     | 2,720   | 523                                  | 218                       | -                          | 970                   |
| Contributions from business combinations  | -                         | -   | -                                    | -                         | -                          | -                     |
| Other   | (63,119)                  | (61,966)  | (811)                                | (1,413)                   | (550)                      | (983)                 |
| Total nonoperating gains, net   | 1,450,614                 | 792,963   | 35,926                               | 20,936                    | 21,171                     | 18,470                |
| Excess (deficit) of revenues and gains over expenses and losses   | 2,056,405                 | 877,701   | 86,298                               | 45,067                    | 21,916                     | 17,237                |
| Less noncontrolling interests   | 245,893                   | 192,515   | (71)                                 | -                         | 673                        | -                     |
| Excess of revenues and gains over expenses and losses attributable to controlling interest  | 1,810,512                 | 685,186   | 86,369                               | 45,067                    | 21,243                     | 17,237                |

| Consolidated<br>Indiana | Consolidated<br>Kalamazoo | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|---------------------------|--------------------------------------|----------------------|---------------------------------|-------------------------|
| \$ 2,789,133            | \$ 528,877                | \$ 150,635               | \$ 644,593                | \$ 266,709             | \$ 1,223,119              | \$ 304,618                           | \$ 304,290           | \$ 207,935                      | \$ 1,109,491            |
| 135,365                 | 12,934                    | 4,827                    | 44,026                    | 15,807                 | 50,885                    | 13,677                               | 25,037               | 4,921                           | 88,103                  |
| 2,653,768               | 515,943                   | 145,808                  | 600,567                   | 250,902                | 1,172,234                 | 290,941                              | 279,253              | 203,014                         | 1,021,388               |
| 134,053                 | 29,225                    | 4,449                    | 28,192                    | 11,613                 | 94,846                    | 16,570                               | 11,834               | 14,294                          | 112,578                 |
| 2,787,821               | 545,168                   | 150,257                  | 628,759                   | 262,515                | 1,267,080                 | 307,511                              | 291,087              | 217,308                         | 1,133,966               |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 1,005,587               | 217,427                   | 56,781                   | 247,445                   | 96,640                 | 396,309                   | 125,997                              | 109,919              | 108,865                         | 510,569                 |
| 238,249                 | 57,643                    | 11,521                   | 48,319                    | 15,370                 | 84,881                    | 26,066                               | 24,255               | 17,592                          | 114,466                 |
| 299,632                 | 64,607                    | 14,574                   | 68,062                    | 33,882                 | 135,218                   | 45,361                               | 21,747               | 31,579                          | 72,488                  |
| 137,806                 | 47,701                    | 10,986                   | 50,615                    | 5,718                  | 65,929                    | 25,072                               | 17,460               | 17,126                          | 47,940                  |
| 357,986                 | 75,173                    | 32,726                   | 65,191                    | 55,165                 | 230,190                   | 48,248                               | 43,448               | 25,826                          | 176,173                 |
| 11,853                  | 2,625                     | 263                      | 1,754                     | 1,073                  | 4,460                     | 1,727                                | 1,217                | 1,876                           | 5,128                   |
| 14,609                  | 4,878                     | 850                      | 10,189                    | 2,320                  | 12,991                    | 4,321                                | 1,668                | 1,932                           | 15,203                  |
| 103,797                 | 18,002                    | 5,536                    | 39,769                    | 11,949                 | 62,406                    | 13,697                               | 12,041               | 9,015                           | 64,544                  |
| 331,081                 | 53,506                    | 8,651                    | 74,621                    | 28,219                 | 168,491                   | 23,653                               | 39,622               | 22,214                          | 86,554                  |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 2,500,600               | 541,562                   | 141,888                  | 605,965                   | 250,336                | 1,160,875                 | 314,142                              | 271,377              | 236,025                         | 1,093,065               |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 287,221                 | 3,606                     | 8,369                    | 22,794                    | 12,179                 | 106,205                   | (6,631)                              | 19,710               | (18,717)                        | 40,901                  |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 | 33                      |
| (15,743)                | (4,148)                   | (684)                    | (2,060)                   | 67                     | (1,281)                   | (2,306)                              | (179)                | (2,298)                         |                         |
| 271,478                 | (542)                     | 7,685                    | 20,734                    | 12,246                 | 104,924                   | (8,937)                              | 19,531               | (21,015)                        | 40,934                  |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 301,790                 | 16,049                    | 7,598                    | 12,186                    | 19,007                 | 72,147                    | 32,973                               | 17,532               | 2,904                           | 75,280                  |
| 52                      | (2)                       |                          |                           |                        | 2                         | 60                                   |                      |                                 |                         |
| (19)                    | (7)                       | (1)                      | (13)                      | (3)                    | (16)                      | (5)                                  | (2)                  | (74)                            | (2)                     |
| 588                     |                           |                          |                           |                        |                           | 169                                  |                      | 351                             |                         |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 7,894                   | (984)                     | (191)                    | (556)                     | (1)                    | (829)                     | (347)                                | (787)                | 217                             | (1,812)                 |
| 310,305                 | 15,056                    | 7,406                    | 11,617                    | 19,003                 | 71,304                    | 32,850                               | 16,743               | 3,398                           | 73,466                  |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 581,783                 | 14,514                    | 15,091                   | 32,351                    | 31,249                 | 176,228                   | 23,913                               | 36,274               | (17,617)                        | 114,400                 |
| 23,839                  |                           |                          |                           |                        | 15,050                    |                                      |                      |                                 | 13,887                  |
|                         |                           |                          |                           |                        |                           |                                      |                      |                                 |                         |
| 557,944                 | 14,514                    | 15,091                   | 32,351                    | 31,249                 | 161,178                   | 23,913                               | 36,274               | (17,617)                        | 100,513                 |

## Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)  
*(Dollars in Thousands)*

Year Ended June 30, 2014

|  | Consolidated<br>Ascension | Consolidated<br>Ascension less Health<br>Ministries Presented | Consolidated<br>Arlington<br>Heights | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|--|---------------------------|---|--------------------------------------|---------------------------|----------------------------|-----------------------|
| Unrestricted net assets, controlling interest:   |                           |   |                                      |                           |                            |                       |
| Excess (deficit) of revenues and gains over expenses and losses  | \$ 1,810,512              | \$ 685,186  | \$ 86,369                            | \$ 45,067                 | \$ 21,243                  | \$ 17,237             |
| Transfer (to) from sponsors and other affiliates, net  | (6,566)                   | 330,100   | (15,661)                             | (14,949)                  | (18,805)                   | (13,428)              |
| Contributed net assets   | (1,534)                   | (1,411)   | —                                    | —                         | —                          | —                     |
| Membership interest changes, net   | 45,255                    | —   | —                                    | —                         | —                          | —                     |
| Net assets released from restrictions for property acquisitions  | 62,537                    | 40,651  | 1,618                                | 1,308                     | 6,433                      | 347                   |
| Pension and other postretirement liability adjustments   | 23,990                    | 3,103   | 2,139                                | (2,660)                   | —                          | (940)                 |
| Change in unconsolidated entities' net assets  | 4,571                     | (973)   | —                                    | —                         | —                          | 13                    |
| Other  | (24,514)                  | (11,794)  | 43                                   | (2)                       | 8                          | —                     |
| Increase in unrestricted net assets, controlling interest,<br>before (loss) gain from discontinued operations and<br>cumulative effect of change in accounting principle | 1,914,251                 | 1,044,862   | 74,508                               | 28,764                    | 8,879                      | 3,229                 |
| (Loss) gain from discontinued operations   | (164,363)                 | (164,363)   | —                                    | —                         | —                          | —                     |
| Increase (decrease) in unrestricted net assets, controlling interest   | 1,749,888                 | 880,499   | 74,508                               | 28,764                    | 8,879                      | 3,229                 |
| Unrestricted net assets, noncontrolling interest:  |                           |   |                                      |                           |                            |                       |
| Excess of revenues and gains over expenses and losses  | 245,893                   | 192,515   | (71)                                 | —                         | 673                        | —                     |
| Distributions of capital   | (531,159)                 | (496,742)   | —                                    | —                         | (622)                      | —                     |
| Contributions of capital   | 401,546                   | 362,901   | —                                    | —                         | (21)                       | —                     |
| Membership interest changes, net   | (52,530)                  | —   | —                                    | —                         | —                          | —                     |
| Increase (decrease) in unrestricted net assets, noncontrolling interest  | 63,750                    | 58,674  | (71)                                 | —                         | 30                         | —                     |
| Temporarily restricted net assets, controlling interest  |                           |   |                                      |                           |                            |                       |
| Contributions and grants   | 99,885                    | 64,457  | 4,266                                | 2,021                     | 2,161                      | 1,636                 |
| Investment return  | 31,292                    | 19,972  | 576                                  | 177                       | 344                        | 255                   |
| Net assets released from restrictions  | (115,353)                 | (73,738)  | (4,791)                              | (2,709)                   | (7,226)                    | (2,740)               |
| Other  | 348                       | (253)   | (262)                                | —                         | (56)                       | —                     |
| Increase (decrease) in temporarily restricted net assets, controlling interest   | 16,172                    | 10,438  | (211)                                | (511)                     | (4,777)                    | (849)                 |
| Permanently restricted net assets, controlling interest  |                           |   |                                      |                           |                            |                       |
| Contributions  | 10,405                    | 8,426   | —                                    | —                         | 1                          | —                     |
| Investment return  | 7,942                     | 7,350   | —                                    | 6                         | 53                         | 1                     |
| Other  | (1,647)                   | (828)   | (480)                                | —                         | —                          | —                     |
| Increase in permanently restricted net assets, controlling interest  | 16,700                    | 14,948  | (480)                                | 6                         | 54                         | 1                     |
| Increase in net assets   | 1,846,510                 | 964,559   | 73,746                               | 28,259                    | 4,186                      | 2,381                 |
| Net assets, beginning of period  | 17,128,627                | 9,193,693   | 440,156                              | 401,042                   | 411,229                    | 86,013                |
| Net assets, end of period  | \$ 18,975,137             | \$ 10,158,252   | \$ 513,902                           | \$ 429,301                | \$ 415,415                 | \$ 88,394             |

| Consolidated<br>Indiana            | Consolidated<br>Kalamazoo      | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Mobile         | Consolidated<br>Nashville        | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Waco        | Consolidated<br>Washington D.C. | Consolidated<br>Wichita                 |
|------------------------------------|--------------------------------|--------------------------|---------------------------|--------------------------------|----------------------------------|--------------------------------------|-----------------------------|---------------------------------|---|
| \$ 557,944<br>(134,079)            | \$ 14,514<br>(16,002)          | \$ 15,091<br>(5,270)     | \$ 32,351<br>(16,675)     | \$ 31,249<br>(10,562)<br>(123) | \$ 161,178<br>(44,027)           | \$ 23,913<br>(17,605)                | \$ 36,274<br>(10,959)       | \$ (17,617)<br>(6,649)          | \$ 100,513<br>(11,995)                  |
| 5,247<br>(2,762)                   | 667<br>723                     | 119<br>(1,566)           | 42<br>1,679               | —<br>517                       | 4,978<br>2,326                   | 449<br>1,276                         | 321<br>20                   | 37<br>693                       | 45,255<br>320<br>19,442                 |
| —<br>(227)                         | —                              | —                        | —                         | —                              | —<br>(677)                       | —<br>1                               | —<br>29                     | —<br>308                        | 5,531<br>(12,203)                       |
| 426,123                            | (98)                           | 8,374                    | 17,397                    | 21,081                         | 123,778                          | 8,034                                | 25,685                      | (23,228)                        | 146,863                                 |
| 426,123                            | (98)                           | 8,374                    | 17,397                    | 21,081                         | 123,778                          | 8,034                                | 25,685                      | (23,228)                        | 146,863                                 |
| 23,839<br>(17,370)<br>25,481       | —<br>—<br>—                    | —<br>—<br>—              | —<br>—<br>—               | —<br>—<br>—                    | 15,050<br>(12,891)<br>3,062      | —<br>—<br>—                          | —<br>—<br>—                 | —<br>—<br>—                     | 13,887<br>(3,534)<br>10,123<br>(52,530) |
| 31,950                             | —                              | —                        | —                         | —                              | 5,221                            | —                                    | —                           | —                               | (32,054)                                |
| 9,829<br>4,145<br>(8,489)<br>(427) | 2,029<br>423<br>(1,824)<br>(2) | 186<br>—<br>(202)<br>—   | —<br>—<br>(42)<br>606     | 1,069<br>34<br>(368)<br>—      | 3,470<br>3,513<br>(6,937)<br>730 | 2,439<br>461<br>(658)<br>133         | 521<br>84<br>(421)<br>(121) | 3,718<br>—<br>(2,791)<br>—      | 2,083<br>1,308<br>(2,417)<br>—          |
| 5,058                              | 626                            | (16)                     | 564                       | 735                            | 776                              | 2,375                                | 63                          | 927                             | 974                                     |
| 1,679<br>429<br>(258)              | 6<br>—<br>—                    | —<br>—<br>—              | —<br>—<br>52              | —<br>—<br>—                    | 14<br>—<br>—                     | 4<br>103<br>(133)                    | 23<br>—<br>—                | —<br>—<br>—                     | 252<br>—<br>—                           |
| 1,850                              | 6                              | —                        | 52                        | —                              | 14                               | (26)                                 | 23                          | —                               | 252                                     |
| 464,981<br>3,040,114               | 534<br>153,845                 | 8,358<br>112,530         | 18,013<br>558,755         | 21,816<br>193,718              | 129,789<br>825,810               | 10,383<br>344,141                    | 25,771<br>243,028           | (22,301)<br>54,983              | 116,035<br>1,069,570                    |
| \$ 3,505,095                       | \$ 154,379                     | \$ 120,888               | \$ 576,768                | \$ 215,534                     | \$ 955,599                       | \$ 354,524                           | \$ 268,799                  | \$ 32,682                       | \$ 1,185,605                            |

## Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets  
(Dollars in Thousands)

Year Ended June 30, 2013

|   | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|---|---------------------------|---|---------------------------|----------------------------|-----------------------|
| Operating revenue:  |                           |   |                           |                            |                       |
| Net patient service revenue   | \$ 16,326,684             | \$ 10,272,825   | \$ 419,247                | \$ 651,936                 | \$ 454,997            |
| Less provision for doubtful accounts  | 1,124,409                 | 794,303   | 18,230                    | 24,205                     | 16,563                |
| Net patient service revenue, less provision for doubtful accounts   | 15,202,275                | 9,478,522   | 401,017                   | 627,731                    | 438,434               |
| Other revenue   | 1,334,623                 | 794,194   | 12,085                    | 39,997                     | 20,584                |
| Total operating revenue   | 16,536,898                | 10,272,716  | 413,102                   | 667,728                    | 459,018               |
| Operating expenses:   |                           |   |                           |                            |                       |
| Salaries and wages  | 6,974,951                 | 4,526,008   | 198,232                   | 219,244                    | 204,060               |
| Employee benefits   | 1,528,119                 | 992,104   | 30,490                    | 46,792                     | 56,617                |
| Purchased services  | 955,440                   | 348,971   | 25,020                    | 84,559                     | 45,083                |
| Professional fees   | 1,093,446                 | 736,221   | 17,997                    | 15,979                     | 37,184                |
| Supplies  | 2,334,427                 | 1,355,338   | 59,966                    | 138,758                    | 62,523                |
| Insurance   | 109,178                   | 79,023  | 886                       | 3,330                      | 1,393                 |
| Interest  | 150,877                   | 73,494  | 2,737                     | 7,595                      | 10,269                |
| Depreciation and amortization   | 730,757                   | 452,706   | 17,661                    | 34,350                     | 11,814                |
| Other   | 2,140,182                 | 1,337,001   | 32,436                    | 91,757                     | 29,311                |
| Total operating expenses before impairment, restructuring, and nonrecurring gains (losses), net   | 16,017,377                | 9,900,866   | 385,425                   | 642,364                    | 458,254               |
| Income (loss) from operations before self-insurance trust fund investment return and impairment restructuring and non recurring gains (losses), net | 519,521                   | 371,850   | 27,677                    | 25,364                     | 764                   |
| Self-insurance trust fund investment return   | 34,985                    | 35,003  | —                         | —                          | —                     |
| Impairment, restructuring, and nonrecurring expenses  | (103,344)                 | (147,013)   | (1,030)                   | (4,156)                    | (2,774)               |
| Income (loss) from operations   | 451,162                   | 259,840   | 26,647                    | 21,208                     | (2,010)               |
| Nonoperating gains (losses):  |                           |   |                           |                            |                       |
| Investment return   | 736,300                   | 606,540   | 15,619                    | 14,348                     | 12,813                |
| Loss on extinguishment of debt  | (4,079)                   | (4,079)   | —                         | —                          | —                     |
| Gain (loss) on interest rate swaps  | 53,746                    | 47,817  | (17)                      | 5                          | (63)                  |
| Income from unconsolidated entities   | 8,544                     | 4,044   | 1,308                     | —                          | 884                   |
| Contributions from business combinations  | 2,021,963                 | 2,021,963   | —                         | —                          | —                     |
| Other   | (69,524)                  | (60,745)  | (1,253)                   | (416)                      | (1,110)               |
| Total nonoperating gains, net   | 2,746,950                 | 2,615,540   | 15,657                    | 13,937                     | 12,524                |
| Excess (deficit) of revenues and gains over expenses and losses   | 3,198,112                 | 2,875,380   | 42,304                    | 35,145                     | 10,514                |
| Less noncontrolling interests   | 131,184                   | 122,083   | —                         | 566                        | —                     |
| Excess of revenues and gains over expenses and losses attributable to controlling interest  | 3,066,928                 | 2,753,297   | 42,304                    | 34,579                     | 10,514                |



| Consolidated<br>Kalamazoo | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Ministry | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Tulsa | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|---------------------------|--------------------------|---------------------------|--------------------------|------------------------|---------------------------|--------------------------------------|-----------------------|----------------------|---------------------------------|-------------------------|
| \$ 541,397                | \$ 139,838               | \$ 627,323                | \$ 336,232               | \$ 267,116             | \$ 1,233,158              | \$ 325,126                           | \$ 265,372            | \$ 286,577           | \$ 232,461                      | \$ 273,079              |
| 18,544                    | 4,878                    | 32,113                    | 22,577                   | 19,318                 | 76,041                    | 13,681                               | 35,334                | 18,233               | 14,407                          | 15,982                  |
| 522,853                   | 134,960                  | 595,210                   | 313,655                  | 247,798                | 1,157,117                 | 311,445                              | 230,038               | 268,344              | 218,054                         | 257,097                 |
| 35,972                    | 4,375                    | 32,469                    | 214,863                  | 9,682                  | 100,610                   | 8,581                                | 14,710                | 13,443               | 14,162                          | 18,896                  |
| 558,825                   | 139,335                  | 627,679                   | 528,518                  | 257,480                | 1,257,727                 | 320,026                              | 244,748               | 281,787              | 232,216                         | 275,993                 |
| 223,624                   | 52,762                   | 249,296                   | 179,165                  | 97,823                 | 418,120                   | 132,001                              | 113,942               | 110,711              | 124,977                         | 124,986                 |
| 65,053                    | 11,788                   | 49,138                    | 45,898                   | 15,970                 | 91,851                    | 28,779                               | 21,140                | 25,258               | 18,818                          | 28,423                  |
| 64,243                    | 13,407                   | 65,230                    | 43,099                   | 30,145                 | 123,539                   | 44,631                               | 11,314                | 17,868               | 25,476                          | 12,855                  |
| 43,276                    | 8,716                    | 48,550                    | 22,608                   | 7,115                  | 67,410                    | 29,607                               | 8,790                 | 17,635               | 19,764                          | 12,594                  |
| 74,159                    | 30,127                   | 66,824                    | 50,083                   | 53,361                 | 232,769                   | 50,032                               | 44,606                | 44,915               | 27,330                          | 43,636                  |
| 2,680                     | 365                      | 2,410                     | 1,662                    | 1,644                  | 5,694                     | 1,810                                | 1,790                 | 1,170                | 2,595                           | 2,726                   |
| 5,694                     | 931                      | 11,168                    | 3,226                    | 2,950                  | 14,406                    | 4,595                                | 5,434                 | 1,829                | 2,344                           | 4,205                   |
| 18,126                    | 4,807                    | 45,622                    | 16,840                   | 10,606                 | 60,228                    | 11,318                               | 11,760                | 12,070               | 7,778                           | 15,071                  |
| 56,285                    | 9,162                    | 78,534                    | 164,539                  | 27,434                 | 181,908                   | 26,830                               | 20,884                | 33,263               | 26,481                          | 24,357                  |
| 553,140                   | 132,065                  | 616,772                   | 527,120                  | 247,048                | 1,195,925                 | 329,603                              | 239,660               | 264,719              | 255,563                         | 268,853                 |
| 5,685                     | 7,270                    | 10,907                    | 1,398                    | 10,432                 | 61,802                    | (9,577)                              | 5,088                 | 17,068               | (23,347)                        | 7,140                   |
| -                         | -                        | -                         | -                        | -                      | -                         | -                                    | -                     | (1)                  | -                               | (17)                    |
| (1,489)                   | (500)                    | (5,111)                   | 45,607                   | (351)                  | 177                       | (1,624)                              | 22,648                | (4,101)              | (1,161)                         | (2,466)                 |
| 4,196                     | 6,770                    | 5,796                     | 47,005                   | 10,081                 | 61,979                    | (11,201)                             | 27,736                | 12,966               | (24,508)                        | 4,657                   |
| 10,657                    | 5,437                    | 5,462                     | (12,275)                 | 12,805                 | 41,675                    | 24,614                               | (5,451)               | 10,278               | 4,641                           | (10,863)                |
| -                         | -                        | -                         | -                        | -                      | -                         | -                                    | -                     | -                    | -                               | -                       |
| (35)                      | (6)                      | (68)                      | 6,506                    | (13)                   | (88)                      | (56)                                 | (236)                 | (10)                 | 14                              | (4)                     |
| -                         | -                        | -                         | -                        | -                      | -                         | 104                                  | -                     | -                    | 522                             | 1,682                   |
| -                         | -                        | -                         | -                        | -                      | -                         | -                                    | -                     | -                    | -                               | -                       |
| (1,286)                   | (524)                    | (462)                     | (2,575)                  | -                      | (916)                     | (292)                                | 272                   | (502)                | 71                              | 214                     |
| 9,336                     | 4,907                    | 4,932                     | (8,344)                  | 12,792                 | 40,671                    | 24,370                               | (5,415)               | 9,766                | 5,248                           | (8,971)                 |
| 13,532                    | 11,677                   | 10,728                    | 38,661                   | 22,873                 | 102,650                   | 13,169                               | 22,321                | 22,732               | (19,260)                        | (4,314)                 |
| -                         | -                        | -                         | (39)                     | -                      | 7,406                     | -                                    | -                     | -                    | -                               | 1,168                   |
| 13,532                    | 11,677                   | 10,728                    | 38,700                   | 22,873                 | 95,244                    | 13,169                               | 22,321                | 22,732               | (19,260)                        | (5,482)                 |

## Ascension

**Details of Consolidated Statement of Operations and Changes in Net Assets (continued)**  
*(Dollars in Thousands)*

**Year Ended June 30, 2013**

|  | <b>Consolidated<br/>Ascension</b> | <b>Consolidated Ascension<br/>less Health Ministries<br/>Presented</b> | <b>Consolidated<br/>Baltimore</b> | <b>Consolidated<br/>Birmingham</b> | <b>Consolidated<br/>Flint</b> | <b>Consolidated<br/>Kalamazoo</b> |
|--|-----------------------------------|--|-----------------------------------|------------------------------------|-------------------------------|-----------------------------------|
| Unrestricted net assets, controlling interest:   |                                   |  |                                   |                                    |                               |                                   |
| Excess (deficit) of revenues and gains over expenses and losses  | \$ 3,066,928                      | \$ 2,753,297   | \$ 42,304                         | \$ 34,579                          | \$ 10,514                     | \$ 13,532                         |
| Transfer (to) from sponsors and other affiliates, net  | (9,152)                           | 74,813   | (7,390)                           | (8,680)                            | (4,616)                       | (5,912)                           |
| Contributed net assets   | (1,050)                           | (2,574,751)  | —                                 | —                                  | —                             | —                                 |
| Net assets released from restrictions for property acquisitions  | 65,706                            | 44,364   | 8,064                             | 885                                | 390                           | 751                               |
| Pension and other postretirement liability adjustments   | 76,483                            | 13,459   | 424                               | 1,176                              | (2,219)                       | 5,789                             |
| Change in unconsolidated entities' net assets  | 23,295                            | 23,119   | —                                 | —                                  | 176                           | —                                 |
| Other  | 4,507                             | 2,449  | —                                 | 47                                 | (1,343)                       | 4                                 |
| Increase in unrestricted net assets, controlling interest,<br>before (loss) gain from discontinued operations and<br>cumulative effect of change in accounting principle | 3,226,717                         | 336,750  | 43,402                            | 28,007                             | 2,902                         | 14,164                            |
| (Loss) gain from discontinued operations   | (76,829)                          | (76,829)   | —                                 | —                                  | —                             | —                                 |
| Cumulative effect of change in accounting principle  | —                                 | —  | —                                 | —                                  | —                             | —                                 |
| Increase (decrease) in unrestricted net assets, controlling interest   | 3,149,888                         | 259,921  | 43,402                            | 28,007                             | 2,902                         | 14,164                            |
| Unrestricted net assets, noncontrolling interest:  |                                   |  |                                   |                                    |                               |                                   |
| Excess of revenues and gains over expenses and losses  | 131,184                           | 122,083  | —                                 | 566                                | —                             | —                                 |
| Distributions of capital   | (829,989)                         | (820,355)  | —                                 | (731)                              | —                             | —                                 |
| Contributions of capital   | 1,579,187                         | 1,578,269  | —                                 | —                                  | —                             | —                                 |
| Contributions from business combinations   | 64,738                            | 99   | —                                 | (9)                                | —                             | —                                 |
| Increase (decrease) in unrestricted net assets, noncontrolling interest  | 945,120                           | 880,096  | —                                 | (174)                              | —                             | —                                 |
| Temporarily restricted net assets, controlling interest:   |                                   |  |                                   |                                    |                               |                                   |
| Contributions and grants   | 88,841                            | 64,485   | 2,632                             | 5,016                              | 753                           | 1,532                             |
| Investment return  | 17,232                            | 13,996   | 186                               | 309                                | 152                           | 286                               |
| Net assets released from restrictions  | (108,193)                         | (71,793)   | (10,087)                          | (2,983)                            | (798)                         | (2,047)                           |
| Contributions from business combinations   | 44,201                            | —  | —                                 | —                                  | —                             | —                                 |
| Other  | 1,088                             | 2,931  | —                                 | (44)                               | —                             | 57                                |
| Increase (decrease) in temporarily restricted net assets, controlling interest   | 43,169                            | 9,619  | (7,269)                           | 2,298                              | 107                           | (172)                             |
| Permanently restricted net assets, controlling interest:   |                                   |  |                                   |                                    |                               |                                   |
| Contributions  | 2,664                             | 2,326  | —                                 | 19                                 | 11                            | 5                                 |
| Investment return  | 1,598                             | 1,622  | 3                                 | 39                                 | 1                             | —                                 |
| Contributions from business combinations   | 67,846                            | 2  | —                                 | —                                  | —                             | —                                 |
| Other  | (368)                             | 28   | —                                 | —                                  | —                             | —                                 |
| Increase in permanently restricted net assets, controlling interest  | 71,740                            | 3,978  | 3                                 | 58                                 | 12                            | 5                                 |
| Increase in net assets   | 4,209,917                         | 1,153,614  | 36,136                            | 30,189                             | 3,021                         | 13,997                            |
| Net assets, beginning of period  | 12,918,710                        | 9,730,576  | 364,906                           | 381,040                            | 82,992                        | 139,848                           |
| Net assets, end of period  | \$ 17,128,627                     | \$ 10,884,190  | \$ 401,042                        | \$ 411,229                         | \$ 86,013                     | \$ 153,845                        |

| Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Ministry | Consolidated<br>Mobile        | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Tulsa | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|--------------------------|---------------------------|--------------------------|-------------------------------|---------------------------|--------------------------------------|-----------------------|----------------------|---------------------------------|-------------------------|
| \$ 11,677<br>(2,330)     | \$ 10,728<br>(12,041)     | \$ 38,700<br>920,665     | \$ 22,873<br>(4,513)<br>(250) | \$ 95,244<br>(21,085)     | \$ 13,169<br>(8,968)                 | \$ 22,321<br>664,297  | \$ 22,732<br>(5,330) | \$ (19,260)<br>(3,100)          | \$ (5,482)              |
| 110<br>(1,336)           | 2,208<br>5,473            | 30,566                   | 171<br>675                    | 6,816<br>1,184            | 1,118<br>(487)                       | 16,903                | 96<br>142            | 409<br>1,101                    | 324<br>3,633            |
| -                        | -                         | 1,869                    | 760                           | -                         | 2                                    | 405                   | (246)                | 456                             | 104                     |
| 8,121                    | 6,368                     | 991,800                  | 19,716                        | 82,159                    | 4,834                                | 703,926               | 17,394               | (20,394)                        | 987,568                 |
| 8,121                    | 6,368                     | 991,800                  | 19,716                        | 82,159                    | 4,834                                | 703,926               | 17,394               | (20,394)                        | 987,568                 |
| -                        | -                         | (39)                     | -                             | 7,406                     | -                                    | -                     | -                    | -                               | 1,168                   |
| -                        | -                         | (57)                     | -                             | (7,830)                   | -                                    | -                     | -                    | -                               | (1,016)                 |
| -                        | -                         | 817                      | -                             | -                         | -                                    | -                     | -                    | -                               | 101                     |
| -                        | -                         | 1,069                    | -                             | -                         | -                                    | (89)                  | -                    | -                               | 63,668                  |
| -                        | -                         | 1,790                    | -                             | (424)                     | -                                    | (89)                  | -                    | -                               | 63,921                  |
| 173                      | 63                        | 1,612                    | 837                           | 3,109                     | 1,145                                | 2,301                 | 540                  | 3,424                           | 1,219                   |
| 1<br>(167)               | (2,208)                   | (113)                    | 23                            | 2,358                     | 248                                  | (179)                 | 62                   | -                               | (97)                    |
| -                        | -                         | -                        | (980)                         | (7,200)                   | (1,356)                              | (2,203)               | (536)                | (4,210)                         | (1,625)                 |
| -                        | -                         | 21,229                   | -                             | -                         | -                                    | 11,103                | -                    | -                               | 11,869                  |
| -                        | 1,105                     | (2,087)                  | (3)                           | (1,041)                   | -                                    | -                     | 170                  | -                               | -                       |
| 7                        | (1,040)                   | 20,641                   | (123)                         | (2,774)                   | 37                                   | 11,022                | 236                  | (786)                           | 11,366                  |
| -                        | -                         | 90                       | -                             | 150                       | 33                                   | -                     | 30                   | -                               | -                       |
| -                        | -                         | (146)                    | -                             | -                         | 79                                   | -                     | -                    | -                               | -                       |
| -                        | -                         | 51,129                   | -                             | -                         | -                                    | 10,000                | -                    | -                               | 6,715                   |
| -                        | 2                         | (390)                    | -                             | -                         | -                                    | -                     | (8)                  | -                               | -                       |
| -                        | 2                         | 50,683                   | -                             | 150                       | 112                                  | 10,000                | 22                   | -                               | 6,715                   |
| 8,128                    | 5,330                     | 1,064,914                | 19,593                        | 79,111                    | 4,983                                | 724,859               | 17,652               | (21,180)                        | 1,069,570               |
| 104,402                  | 553,425                   | -                        | 174,125                       | 746,699                   | 339,158                              | -                     | 225,376              | 76,163                          | -                       |
| \$ 112,530               | \$ 558,755                | \$ 1,064,914             | \$ 193,718                    | \$ 825,810                | \$ 344,141                           | \$ 724,859            | \$ 243,028           | \$ 54,983                       | \$ 1,069,570            |

**SUPPLEMENTAL**  
**#1**



181  
**State of Tennessee**  
**Health Services and Development Agency**  
Andrew Jackson Building, 9<sup>th</sup> Floor  
www.tn.gov/hsda Phone: 615-741-2364/Fax: 615-741-9884

August 25, 2015  
3:48 pm

AUG 25 '15 PM 3:48

August 25, 2015

Michel D. Brent, Attorney  
Bradley Arant Boult Cummings, LLC  
1600 Division Street, Suite 700  
Nashville, TN 37203

RE: Certificate of Need Application Saint Thomas Medical Partners d/b/a Saint Thomas Medical Partners-Neurosurgery-Imaging Center, CN1508-033

**Acquisition of MRI and Initiation of MRI Service**

Dear Mr. Brent,

This will acknowledge our August 14, 2015 receipt of your **Consent Calendar Request** regarding your application for a Certificate of Need to acquire the existing MRI unit approved in Neurological Surgeons, P.C, CN9902-013AM and initiate MRI services under the ownership and management of ST. Thomas Partners, a wholly owned affiliate of the Saint Thomas Health Network, at 2214 Elliston Place, Suite 200, Nashville (Davidson County), Tennessee.

Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 4:00 PM, August 25, 2015. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

---

**1. Proof of Publication**

The copy of the published LOI in the Tennessean is missing the date it was published and is difficult to read. Please submit a copy of the published LOI with date & mast intact or a publisher's affidavit that verifies same.

**Response:** Please see Supplemental Attachment – Proof of Publication for a copy of the published LOI.

**2. Section A, Applicant Profile, Item 1**

As the contact for the applicant may be aware, all approved Certificates of Need are site specific. Review of HSDA records reflected that the site approved in the CN9902-013AM was changed in 2003 from 2018 Murphy Avenue to its present location at 2214 Elliston Place in 2003. Please briefly describe the reason for the change.

**Response:** As heard on April 23, 2003 for the General Counsel's report, the move from 2018 Murphy Avenue to 2214 Elliston Place was approved per the excerpted minutes below.

**Neurological Surgeons. P.C. - Project No. CN9902-013A**

Relocation of medical equipment.

John R. Voigt, Esq., representing the applicant spoke on behalf of the project.

Ms. Cunningham moved for approval of the request by amending the current Certificate of Need for the relocating the MRI to a designated Location of 400 yards and the upgrade of equipment. Mr. Koella seconded the motion. Mr. Moore stated that this request is granted by the modification of the existing Certificate of Need to reflect the revisions as stated in the motion. The motion CARRIED [5-2-1]. **APPROVED**

AYE: Moore, Koella, Cunningham, Atchley, Caldwell

NAY: Weaver, Shackleford

ABSTAINED: Duckett

**3. Section A, Applicant Profile, Item 6**

Other than the copy of the lease assignment and assumption document effective 8/11/15 between the applicant and the Howell Allen Clinic, P.C. Clinic, please include a brief description that identifies ownership of the building containing the MRI service at 2214 Elliston Place in Nashville. If different than Howell Allen Clinic, it would be helpful to provide documentation that attests to the building owner's approval or permission to assign the lease to the applicant.

**Response:** The building located at 2214 Elliston Place is owned by Elliston Place Limited Partnership, successor in interest to NS Leasing, LLC, the lessor under

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the July 1, 2004 Office Lease Agreement (the "Lease"). Section 9 of the Lease (included as a part of Attachment A.6 of the Application) permits the Lease to be assigned in connection with the sale of all or substantially all of the lessee's assets.

**4. Section B, Applicant Profile, Item 13 and Section C, Economic Feasibility, Item 6.B**

The response is noted. Will professional fees for MRI interpretation services by licensed radiologists be reimbursed by the applicant? If the radiologists will be billing separately using their own provider certification/registration numbers, what assurances apply such that the radiologists will hold Medicare and Medicaid provider certification and will be contracted with the same TennCare MCO plans as the applicant? Please briefly discuss the arrangements planned in this regard.

**Response:** As previously noted, the Applicant is an affiliate of Saint Thomas Health, which has a relationship in place with a group of Tennessee-licensed radiologists to provide interpretation services for its affiliates. The Applicant and the radiology group would enter into a new professional services agreement (the "PSA") for the subject MRI location. Pursuant to the PSA, the radiology group would be reimbursed by directly billing third-party payors and would be required to maintain Medicare and Medicaid/TennCare certification. The PSA would also require the radiology group to see the Applicant's patients without regard to their source of payment.

**5. Section B, Project Description, Item II.A.**

Please expand the executive summary by identifying counties included in the primary service area (PSA) proposed for this project. In your response, please briefly address any key differences from the PSA approved in CN9902-013.

In terms of background, the applicant states that the MRI unit approved in CN9902-013 will be purchased as part of the acquisition of the physician practice and will continue to be used for the patients of the practice. However, it appears that referrals for MRI studies are not limited exclusively to patients of the practice. Rather, referrals by other physicians affiliated with the Saint Thomas Network will occur as well as referrals from non-affiliated physicians in the applicant's service area. Please clarify.

Since issued, the name of the medical group and the location of the approved MRI service have changed. Please provide a brief description that offers some background about the changes.

Please also provide some general background information about the Howell Allen medical group such as such as year organized, current number of practicing physicians, medical specialties, estimated total registered patients as of 8/1/2015, and locations of offices in Davidson County.

**Response:** Though the practice is located in the Davidson County medical district area, it does pull patients from other counties within Tennessee and other states as well. In fact, in 2014, 499 of the practice's patients originated outside of Tennessee. When analyzing Tennessee patients exclusively, Davidson County accounts for 31.37% of the MRI's procedures. Davidson County accounts for

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27.56% of the MRI's procedures when analyzing all MRI procedures. Using the same parameters, Cheatham accounts for 2.58% and 2.27%, Robertson 4.94% and 4.34%, Rutherford 5.49% and 4.82%, Sumner 9.9% and 8.7%, Williamson 8.85% and 7.77%, and Wilson 4.93% and 4.39%. The clinic has significantly fewer patients from Montgomery, Dickson, and Maury Counties, but they have more significant numbers than the remaining Tennessee counties, which individually account for approximately 60 procedures and under with most accounting for much fewer procedures. These three counties account for 4.27% and 3.75%, 2.91% and 2.56%, and 2.58% and 2.27% of the clinic's volumes, respectively.

In 2007 Neurological Surgeons, P.C. changed its name to Howell Allen Clinic as shown in Supplemental Attachment - Section B Project Description, Item II.A. according to the records of the Tennessee Secretary of State.

Howell Allen Clinic was founded April 1, 1983 and currently has 14 physicians, each of whom is listed below, practicing at its locations. Howell Allen Clinic offers medical services related to sports concussions, stereotactic radiosurgery, spine surgery, and benign and malignant brain tumors. It has approximately 20,000 total registered patients as of August 1, 2015, and has locations at 4230 Harding Pike, Suite 810, 5651 Frist Boulevard, Suite 400, 2011 Murphy Avenue, Suites 400 and 301, and 3443 Dickerson Pike, Suite 230 (all locations in Davidson County).

Dr. Everette Howell  
Dr. Vaughan Allen  
Dr. Timothy Schoettle  
Dr. Gregory Lanford  
Dr. Steven Abram  
Dr. Scott Standard  
Dr. Carl Hampf  
Dr. Jason Hubbard  
Dr. Paul McCombs  
Dr. John Spooner  
Dr. Brian O'Shaughnessy  
Dr. Richard Lebow  
Dr. Adam Reig  
Dr. John Culclasure

**6. Section B, Project Description, Item II.B. and Item II.E.**

**Item II.B** -Please briefly describe general features of the building that will house the applicant's proposed MRI service in Suite 200 at 2214 Elliston Place in Nashville. Information might include age & size of building, number of floors, primary entrances/exits, and public areas.

It appears that the MRI service has 522 SF of dedicated space plus another 2,612 SF of common area space available for its use in the 9,146 gross SF of leased medical office space (Suite 200) at the Elliston Place building. Is this an accurate interpretation of the information provided? In your response, please briefly describe dedicated clinical/admin support space, patient waiting, other tenants on same floor closest to the MRI area, etc.

**Response:** The building at 2214 Elliston Place was built in 2004 and consists of 27,192 total square feet in three equally sized stories. Suite 200 is the entire



second floor of the building, so there are no tenants neighboring the applicant on the same floor. There is a detached parking garage on the north of the property, which is also the location of the primary entrance to the clinic space. The primary entrance to this space is a walkway from the connected parking garage, which comes directly into the second floor of the building. There is also an elevator located in a common lobby on the first floor of the building, which will take patients to the second floor waiting/reception area, and can be used by patients entering from the street level rather than from the parking garage.

Within the second floor of the building, the amount of space solely dedicated to the MRI equipment is 522 SF. There is also 1,001 SF dedicated to other forms of imaging which is not subject to CON review (x-ray, CT, and RF). The common areas shared by all patients were allocated based on the revenues of each type of imaging, resulting in the allocation of 2,612 SF of common area space to MRI. The common areas, as shown on the floor plan submitted with the Application (attachment B.IV), include storage areas, reception and waiting area, restrooms, dressing rooms, a nurses' station, support staff offices, circulation areas, and related spaces.

**Item II.E:**

**1.a.1 - Total Cost** - the applicant notes a cost of \$934,700 for the 1.5 Tesla GE Horizon MRI unit. This amount is reflected in the Project Cost Chart as the sum of the equipment cost (\$359,960) and service contract (\$574,740). However, review of Schedule A in the 2/2015 copy of the 5-year service agreement document in Attachment B.II.E.1 revealed a service cost of approximately \$675,500 (\$135,100 per year x 5 years). Please explain. In your response, please also provide documentation from the MRI equipment vendor that confirms the \$359,960 MRI equipment amount used in the Project Costs Chart.

**Response:**

The Applicant included the cost of the service contract at \$574,740, as that was the calculated amount that will be due for the remaining term of the contract at the time of completion of the closing for the physician practice acquisition, and related MRI acquisition. The amount of approximately \$675,500 (\$135,100 per year x 5 years) estimated by the reviewer was for the full 5 year term of the contract, but the contract commenced in March, 2015, for a period of 60 months. Therefore, at the time of closing the amount due for the then-remaining term of the service contract (taking into account some reduced costs during the first six months of the contract) will be approximately \$574,740.

No equipment vendor is involved in the acquisition of the MRI. The \$359,960 is the price negotiated between the Applicant and Howell Allen Clinic, and is specified in the Purchase Option Agreement attached as Supplemental Attachment - Section B Project Description, Item II.E - Purchase Option Agreement.

**7. Section C, Need, Item 1 (Project Specific Criteria)**

Non-specialty stationary MRI utilization (page 23) - It is understood that the project does not involve documenting need for the addition of a MRI unit to the service area. Please provide a comparison to the MRI service's historical utilization by completing the table below (note information for 2014 is now

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available from the HSDA Equipment Registry – please contact Alecia Craighead, Stat III for questions).

|                                    | 2012 | 2013 | 2014 | %<br>change<br>'12-'14 | 2015<br>(estimated) | Projected<br>Year 1 | Projected<br>Year 2 |
|------------------------------------|------|------|------|------------------------|---------------------|---------------------|---------------------|
| As a % of<br>2,880 MRI<br>standard | 154% | 175% | 147% | -7%                    | 147%                | 147%                | 147%                |

Access to MRI Units (page 24) – The response on page 14 (recap of Need) indicates that Davidson County residents accounted for approximately 30% of the Howell-Allen clinic's total MRI procedures in 2014. Please also identify utilization by patient county of origin for other counties that account for the majority or approximately 75% of the clinic's total volumes in 2014.

**Response:** In addition to Davidson County, Cheatham, Robertson, Rutherford, Sumner, Williamson, and Wilson Counties, which are listed below in the Historical & Projected MRI Utilization & use by Residents of PSA chart, account for 60% of the clinic's total volumes in 2014. Montgomery, Dickson, and Maury Counties account for 3.75%, 2.56%, and 2.27% of the clinic's volumes, respectively. The patient origins for the remaining clinic volumes are scattered throughout Tennessee and other states. Please note, the total volume for 2014 for Howell Allen Clinic is 4,104 procedures, as reflected throughout the original application and this supplemental response. The differing number was submitted in error.

Handling of Emergencies (page 29) – please address arrangements for physician supervision and a hospital emergency transfer agreement. Please also include a description of arrangements planned for MRI imaging interpretation services by Tennessee licensed radiologists.

**Response:** As noted above, the Applicant will enter into a PSA with a Saint Thomas Health-affiliated radiology group for MRI imaging interpretation services. The PSA will specify the group's obligations regarding scheduling on-site and on-call physicians for on-site supervision and/or MRI interpretation. The Applicant intends to enter into a transfer agreement with its Saint Thomas Health affiliate, Saint Thomas Midtown Hospital, which is less than a mile from the Applicant's location, as to the transfer of any patient who encounters an emergency during an MRI procedure.

#### **8. Section C, Need, Item 3**

The proposed Primary Service Area is Davidson County. The service area approved in Neurological Surgeons, PC, CN9902-013 included Davidson and its contiguous counties located in Middle Tennessee. Review of this response and the map in the application appears to limit the PSA to Davidson County. Please briefly explain why the contiguous counties were excluded from the PSA for this project.

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Please complete the table below showing patient origin in 2014 and Year 1 with volumes by county of residence.

**Response:** The Applicant misstated the Primary Service Area - it is the intent of the Applicant that the Primary Service Area for the project remain Davidson County and its contiguous counties: Cheatham, Robertson, Rutherford, Sumner, Williamson, and Wilson Counties. As detailed in the chart below, Howell Allen Clinic performed 3,605 procedures on Tennessee residents and 499 patients who reside outside Tennessee in 2014.

**Historical & Projected MRI Utilization & use by Residents of PSA**

| County of Residence              | Howell-Allen MRI Procedures 2014 | as a % of Total MRI Procedures 2014 | Total MRI procedures by County Residents 2014 | Applicant's Projected MRI Procedures Year 1 |
|----------------------------------|----------------------------------|-------------------------------------|---|---|
| Davidson                         | 1,131                            | 27.56%                              | 55,087  | 1,131                                       |
| Cheatham                         | 93                               | 2.27%                               | 3,917   | 93  |
| Dickson                          | 105                              | 2.56%                               | 5,552   | 105   |
| Maury                            | 93                               | 2.27%                               | 9,952   | 93  |
| Montgomery                       | 154                              | 3.75%                               | 13,187  | 154   |
| Robertson                        | 178                              | 4.34%                               | 7,084   | 178   |
| Rutherford                       | 198                              | 4.82%                               | 24,504  | 198   |
| Sumner                           | 357                              | 8.7%                                | 16,001  | 357   |
| Williamson                       | 319                              | 7.77%                               | 18,089  | 319   |
| Wilson                           | 180                              | 4.39%                               | 11,380  | 180   |
| Other TN Counties & Other States | 1,648                            | 40.16%                              | 396,397*                                      | 1,648                                       |
| Total                            | 4,104                            | 100%                                | 561,150*                                      | 4,104                                       |

\*Tennessee procedures only.

**9. Section C, Need. Item 5 (Historical Utilization in PSA)**

The table is noted. However, HSDA Equipment Registry now has data for MRI utilization in 2014, including utilization by residents of Davidson County in 2014. Please revise the table by using the format illustrated in the table below.

**Utilization of Existing MRI Providers in Davidson County, 2012-2014**

| Provider Name                              | Type | *Current # Units | Distance from Applicant (miles) | 2012  | 2013  | 2014  | % Change '12-'14 | Use by County Residents in 2014** |
|--|------|------------------|---------------------------------|-------|-------|-------|------------------|-----------------------------------|
| Belle Meade Imaging                        | ODC  | 1                | 3.3                             | 2,817 | 3,085 | 2,834 | .60%             | 743                               |
| Center for Inflammatory Disease            | PO   | 0                | N/A                             | 63    | 19    | N/A   | -100%            | N/A                               |
| Elite Sports Medicine & Orthopaedic Center | PO   | 2                | 0.2                             | 4,781 | 4,771 | 5,701 | 19.24%           | 2,016                             |
| Heritage                                   | PO   | 1*               | 0.5                             | 1,831 | 1,965 | 1,561 | -14.75%          | 749                               |

| Provider Name  | Type          | *Current<br># Units | Distance<br>from<br>Applicant<br>(miles) | 2012  | 2013  | 2014  | %<br>Change<br>'12-'14 | Use by<br>County<br>Residents<br>in 2014** |
|--|---------------|---------------------|--|-------|-------|-------|------------------------|--|
| Medical Associates -<br>Murphy Avenue                          |               |                     |  |       |       |       |                        |  |
| Hillsboro Imaging  | ODC           | 1                   | 1.9                                      | 3,968 | 4,252 | 4,359 | 9.85%                  | 1,705                                      |
| Millennium MRI, LLC  | ODC           | 1*                  | 0.8                                      | 366   | 451   | 455   | 24.32%                 | 81   |
| Nashville Bone and Joint                                       | PO            | 1*                  | 13.5                                     | 953   | 939   | 945   | -0.84%                 | 476  |
| Nashville General Hospital                                     | HOSP          | 1                   | 1.5                                      | 1,481 | 1,775 | 1,725 | 16.48%                 | 1,531                                      |
| Howell Allen Clinic, P.C.<br>(f/k/a Neurological Surgeons, PC) | PO            | 1                   | N/A                                      | 4,305 | 4,891 | 5,012 | 16.42%                 |  |
| Next Generation Imaging, LLC                                   | ODC           | 1*                  | 0.8                                      | 649   | 859   | 826   | 27.27%                 | 126  |
| One Hundred Oaks Breast Center                                 | H-<br>Imaging | 1                   | 6.4                                      | 679   | 682   | 728   | 7.22%                  | 194  |
| One Hundred Oaks Imaging                                       | ODC           | 2                   | 6.4                                      | 5,226 | 5,430 | 5,613 | 7.41%                  | 2,173                                      |
| Outpatient Diagnostic Center of Nashville                      | ODC           | 2                   | 0.4                                      | 4,878 | 5,044 | 5,268 | 8.00%                  | 3,008                                      |
| Pain Management Group, PC                                      | PO            | 1                   | 15.6                                     | 2,451 | 2,712 | 2,306 | -5.92%                 | 529  |
| Premier Orthopedics and Sports Medicine                        | ODC           | 2                   | 10.5                                     | 5,214 | 4,471 | 4,930 | -5.45%                 | 2,582                                      |
| Premier Radiology Belle Meade                                  | ODC           | 3                   | 3.7                                      | 7,686 | 6,929 | 5,656 | -26.41%                | 2,441                                      |
| Premier Radiology Brentwood                                    | ODC           | 1                   | 9.4                                      | 2,058 | 1,356 | 2,723 | 157.37%                | 1,053                                      |
| Premier Radiology Hermitage                                    | ODC           | 2                   | 14.7                                     | 4,943 | 4,603 | 4,980 | 0.75%                  | 2,820                                      |
| Premier Radiology Midtown                                      | ODC           | 2                   | 0.4                                      | 0     | 1,351 | 3,054 | 126.05%                | 1,478                                      |
| Premier Radiology  | ODC           | 1                   | 0.8                                      | 2,376 | 2,072 | 1,872 | -21.21%                | 1,200                                      |

| Provider Name                                      | Type | *Current # Units | Distance from Applicant (miles) | 2012   | 2013   | 2014   | % Change '12-'14 | Use by County Residents in 2014** |
|--|------|------------------|---------------------------------|--------|--------|--------|------------------|-----------------------------------|
| Nashville  |      |                  |                                 |        |        |        |                  |                                   |
| Premier Radiology St. Thomas West                  | ODC  | 1                | 2.9                             | N/A    | N/A    | 1,910  | N/A              | 717                               |
| Specialty MRI                                      | ODC  | 1*               | 0.5                             | 1,467  | 1,158  | 792    | -46.01%          | 269                               |
| St. Thomas Heart (Stopped 2013)                    | ODC  | N/A              | N/A                             | 1,609  | N/A    | N/A    | N/A              | N/A                               |
| St. Thomas Midtown Hospital (fka Baptist Hospital) | HOSP | 7                | 0.4                             | 4,752  | 3,249  | 2,856  | -39.90%          | 1,593                             |
| St. Thomas West Hospital (fka St. Thomas Hospital) | HOSP | 2                | 2.9                             | 5,631  | 5,464  | 4,596  | -18.38%          | 1,313                             |
| Tennessee Oncology, PET Services                   | PO   | 1                | 0.5                             | 279    | 1,168  | 1,422  | 409.68%          | 501                               |
| Tennessee Orthopaedic Alliance Imaging             | PO   | 3                | 0.4                             | 7,163  | 6,325  | 7,388  | 3.14%            | 3,646                             |
| TriStar Centennial Medical Center                  | HOSP | 3                | 0.3                             | 7,996  | 8,840  | 9,037  | 13.02%           | 3,520                             |
| TriStar Skyline Medical Center                     | HOSP | 2                | 9.0                             | 7,930  | 8,234  | 7,611  | -4.02%           | 3,359                             |
| TriStar Southern Hills Medical Center              | HOSP | 1                | 9.6                             | 2,659  | 2,740  | 2,642  | -0.64%           | 1,901                             |
| TriStar Summit Medical Center                      | HOSP | 1                | 13.5                            | 4,008  | 4,020  | 4,091  | 2.07%            | 2,244                             |
| TriStar Summit Medical Center - ODC                | HODC | 1*               | 13.1                            | 1,918  | 2,249  | 2,099  | 9.44%            | 1,111                             |
| Vanderbilt University Hospital                     | HOSP | 6                | 0.8                             | 28,706 | 29,507 | 29,381 | 2.35%            | 6,406                             |

\*Shared

\*\*Percentage of residents receiving treatment within county of residence.

#### 10. Item 6 (Applicant's Projected Utilization)

The projected utilization is noted. It would help to have an appreciation of utilization resulting from referrals by physicians in Year 1 - both physician members of the practice and physicians of other practices located in the primary service area (PSA). Please clarify.

In your response, please complete the table below.

**Applicant's Projected MRI Volumes by Physician Specialty - Not Applicable**

| Primary Specialty | MRI procedures as a result of referrals by MD Practice members | MRI Procedures As a result of other Physicians in PSA | Total MRI Procedures Year 1 |
|-------------------|--|---|-----------------------------|
| Family Practice   |  |   |                             |
| Internal Medicine |  |   |                             |
| Orthopedics       |  |   |                             |
| Radiology         |  |   |                             |
| Neurology         |  |   |                             |
| Neurosurgery      |  |   |                             |
| Other _____       |  |   |                             |
| <b>TOTAL</b>      |  |   |                             |

**Response:** The Applicant is not completing the chart above because there are no physicians who refer patients to the clinic from other practices. Moreover, all of the physicians at Howell Allen Clinic are neurologists and neurosurgeons.

**11. Section C, Economic Feasibility Items 1 (Project Costs Chart) and II (Funding)**

**Item I.** - As noted previously, please clarify the cost and service agreement of the MRI unit.

Given the facility lease cost, please show the methodology used to determine the higher of the applicant's lease cost or estimated fair market value (FMV) of the office space, as prorated for use by the MRI service.

Please identify the actual out of pocket cash outlay the applicant expects to support the start-up costs of the project?

**Item II.** - The 8/13/2015 letter from the Interim CFO of Saint Thomas Health appears to be missing confirmation that the funding will be provided from cash reserves. Please clarify.

Review of the Consolidated Balance Sheet for Saint Thomas Health revealed that current assets were lower than current liabilities for the period ending June 30, 2014 resulting in an unfavorable Current ratio. Please discuss further the plans for supporting the project from cash reserves of the parent company.

**Response:**

Item I-

The Applicant included the cost of the MRI service contract at \$574,740, as that was the calculated amount that will be due for the remaining term of the contract at the time of completion of the closing for the physician practice acquisition, and related MRI acquisition. The equipment price was negotiated between the



**August 25, 2015**

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Applicant and Howell Allen Clinic, and is specified at \$359,960 in the Purchase Option Agreement attached as Supplemental Attachment - Section B Project Description, Item II.E - Purchase Option Agreement.

The methodology used to determine the higher of the applicant's lease cost or estimated fair market value (FMV) of the office space, was as follows: The applicant took the appraised value of the entire building (land and improvements), as determined by the Davidson County Assessor of Property (\$4,797,100), divided that by one-third for the entire amount of space subject to lease, and then allocated that third by the percentage of the leased space related to the MRI services, for a total of \$895,459. To determine the applicant's lease cost the applicant took the total rent remaining original lease term of approximately 3.5 years, added the 5-year renewal option period, and estimated the rent which would be due during that period of approximately 8.5 years (using the provisions of the lease as to rental amounts, included estimated annual increases), and then allocated that total estimated remaining rental amount by the percentage of the leased space related to the MRI services, to arrive at a total of \$1,243,497. As \$1,243,497 exceeded the FMV allocation amount of \$895,459, the amount of \$1,243,497 was used in line b.1 of the Project Costs Chart.

As this is already a fully operational business, the applicant does not any actual out of pocket cash outlay for start-up costs. If there are temporary delays in the collections of receivables during the transitioning of the business to the applicant the applicant has sufficient cash reserves, as well as sufficient cash flows from other aspects of its business, to cover any such delays.

**Item II-**

Please see a revised letter from the Interim CFO of Saint Thomas Health attached as Supplemental Attachment - Section C, Economic Feasibility, Item II - Funding indicating that the funding will come from cash reserves.

As a subsidiary of Ascension Health Alliance d/b/a Ascension, the balance sheet of Saint Thomas Health is included in the consolidated financial statements of Ascension. While Ascension's current ratio might be negative, Saint Thomas Health's Current ratio is positive with \$221,419 in assets and \$147,352 in liabilities, as shown in the attached excerpt to Ascension Health's consolidated financial statement at Supplemental Attachment - Section C, Economic Feasibility, Item II - Financial Statement Excerpt.

**12. Section C, Economic Feasibility, Item 4. (Historical and Projected Data Charts)**

Both Charts -

Please provide a detail or breakout of "Other Expenses", such as annual costs related to the MRI service agreement and fees to radiologists for imaging interpretation services.

| Historical Data Chart-Other Expenses (MRI) |           |           |           |
|--|-----------|-----------|-----------|
| Other Expenses Categories                  | Year 2014 | Year 2013 | Year 2012 |
| Fees/Licenses                              | \$4,878   | \$4,723   | \$5,395   |

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|                     |           |           |             |
|---------------------|-----------|-----------|-------------|
| Rent                | \$239,956 | \$232,341 | \$265,379   |
| Repairs/Maintenance | \$231,834 | \$224,477 | \$256,396   |
| Utilities           | \$32,429  | \$31,400  | \$35,865    |
| Waste Disposal      | \$1,616   | \$1,565   | \$1,787     |
| Cable               | \$1,394   | \$1,350   | \$1,542     |
| Equip. Rental       | \$4,091   | \$3,961   | \$4,524     |
| Radiologist Fees    | \$299,031 | \$289,542 | \$330,713   |
| Purchased Services  | \$88,175  | \$85,377  | \$97,517    |
| Telephone, etc.     | \$14,156  | \$13,707  | \$15,656    |
| Laundry             | \$15,456  | \$14,966  | \$17,093    |
| Total Expenses      | \$933,016 | \$903,410 | \$1,031,867 |

| Projected Data Chart - Other Expenses (MRI) |            |              |
|---|------------|--------------|
| Other Expenses Categories                   | Year 2016  | Year 2017    |
| Fees/Licenses                               | \$5,175    | \$5,330      |
| Rent  | \$254,569  | \$262,206    |
| Repairs/Maintenance                         | \$245,953  | \$253,332    |
| Utilities                                   | \$34,404   | \$35,436     |
| Waste Disposal                              | \$1,714    | \$1,765      |
| Cable                                       | \$1,479    | \$1,523      |
| Equip. Rental                               | \$4,340    | \$4,470      |
| Radiologist Fees                            | \$317,242  | \$326,759    |
| Purchased Services                          | \$93,545   | \$96,351     |
| Telephone, etc.                             | \$15,018   | \$15,469     |
| Laundry                                     | \$16,397   | \$16,889     |
| Total Expenses                              | \$989,837* | \$1,019,532* |

\*Please note that the totals for this category were mistakenly calculated as \$999,837 for 2016 and \$1,029,833 for 2017. The amounts above reflect the corrected amounts.

Projected Data Chart -

Please provide a breakout of the base salary and full time equivalent positions by classification used to determine Salaries and Wages in Line D. 1 of the chart.

| Howell Allen Clinic Staffing |             |                   |     |
|------------------------------|-------------|-------------------|-----|
| Position                     | Base Salary | Current Salary    | FTE |
| MRI Tech                     | \$50,000    | \$52,801-\$54,500 | 3   |
| Front Desk                   | \$20,000    | \$14,487-\$22,440 | 2.5 |
| Registered Nurse             | \$50,000    | \$55,000          | 1   |
| Imaging Manager              | \$75,000    | \$85,000          | 1   |

Response:

The amount for the applicant's annual lease cost, prorated for the space used by the MRI service is missing from the chart. Please clarify.

Response: The annual allocable lease cost for 2015 is \$118,467, for 2016 it is \$122,021, and for 2017 it is \$125,681.

**13. Section C., Economic Feasibility, Items 5 and 6.a.**



Item 5 - Review of the Historical and Projected Data Charts revealed that the MRI gross charge was approximately \$1639/procedure in 2014 and is expected to increase to approximately \$1,739/procedure in Year 1 of the project. These amounts are not reflected in the table provided on page 39. Please explain. If in error, please revise the table and submit a replacement page for the application labeled as 39-R.

**Response:** The numbers previously submitted in both charts on page 39 were submitted in error. Please find enclosed as Supplemental Attachment - Section C, Economic Feasibility, Item 5 the requested replacement page 39 to reflect the revised charts.

Item 6.a - Please also include a comparison to HSDA Equipment Registry MRI range of charges in the response (1<sup>st</sup> Quartile, Median, 3<sup>rd</sup> Quartile).

**Response:** The current and proposed charges are both below the Median Charges of \$2,175.15 for 2013.

**14. Section C, Economic Feasibility, Item 9**

Please show the percentages by payor in Year 1 of the project by completing the table below.

**MRI Service Payor Mix, Year 1**

| Payor Source | Gross Revenue<br>Year 1 | Gross Revenue<br>as a % of total<br>Year 1 | Average Gross<br>Charge per MRI<br>procedure* |
|--------------|-------------------------|--|---|
| Medicare     | \$2,342,410             | 32.83%                                     | \$1,738                                       |
| TennCare     | \$114,159               | 1.60%                                      | \$1,738                                       |
| Managed care | \$700,654               | 9.82%                                      | \$1,738                                       |
| Commercial   | \$3,922,091             | 54.97%                                     | \$1,738                                       |
| Self-Pay     | \$6,421                 | .09%                                       | \$1,738                                       |
| Other        | \$49,231                | .69%                                       | \$1,738                                       |
| Total        | \$7,134,968             | 100%                                       | \$1,738                                       |

\*Charges depend on CPT code, not payor.

**15. Section C, Orderly Development, Item 4**

What arrangements are planned for MRI imaging interpretation services by Tennessee licensed radiologist?

**Response:** The applicant will enter into a PSA with a Saint Thomas Health-affiliated radiology group, which would provide interpretation services and physician supervision of MRI imaging services pursuant to the PSA. The radiology group would bill payors directly and be required to maintain Medicare and Medicaid certification and accept all Applicant patients no matter the source of payment.

Mr. Michael Brent  
August 25, 2015  
Page 14

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**SUPPLEMENTAL #1**

**August 25, 2015**

**3:48 pm**

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." For this application the sixtieth (60<sup>th</sup>) day after written notification is October 20, 2015. If this application is not deemed complete by this date, the application will be deemed void. Agency Rule 0720-10-.03(4) (d) (2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Re-submittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

Jeff Grimm  
Health Examiner  
Tennessee Health Services & Development Agency

**August 25, 2015**

**3:48 pm**

**AFFIDAVIT**

August 25, 2015

3:48 pm

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSONNAME OF FACILITY: Saint Thomas Medical Partners d/b/a Saint Thomas Medical Partners - Neurosurgery - Imaging Center

I, Fahad Tahir, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

  
\_\_\_\_\_  
Signature/Title CEO

Sworn to and subscribed before me, a Notary Public, this the 25 day of August, 2015, witness my hand at office in the County of DAVIDSON, State of Tennessee.

  
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires January 9, 2018.

HF-0043

Revised 7/02



**Supplemental Attachment - Proof of Publication**

**August 25, 2015**

3.48 pm

**AFFIDAVIT OF PUBLICATION**

0000642775

**Newspaper**      **The Tennessean**

**TEAR SHEET  
ATTACHED**

## State of Tennessee

**Account Number** NAS-534576

**Advertiser** BRADLEY ARANT BOULT CUMMINGS A

RE: C/M: 206841- 301003 - NOI - SAINT THOMAS MEDICAL PARTNERS

V. Reay Sales Assistant for the above mentioned newspaper,  
hereby certify that the attached advertisement appeared in said newspaper on the following dates:

08/10/15

Subscribed and sworn to before me this 10 day of June

**Notary Public**



## THE TENNESSEAN

Middle Tennessee

## classified

## PUBLIC NOTICES

## PUBLIC NOTICES

0000642775

## NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq. and the Rules of the Health Services and Development Agency, that Saint Thomas Medical Partners (a Tennessee nonprofit corporation wholly owned by Saint Thomas Network, which is a Tennessee nonprofit corporation wholly owned by Saint Thomas Health, a Tennessee nonprofit corporation), intends to file an application for a Certificate of Need for the acquisition of an MRI and initiation of MRI services, to be owned and managed by the applicant. The MRI service is currently provided in a physician practice located at 2214 Elliston Place, Suite 200, in Nashville, Tennessee, 37203. The existing equipment, a GE Horizon short bore MRI with magnet strength of 1.5 Tesla, will be purchased as part of the acquisition of the physician practice and the MRI will continue to be used for the patients of the practice. The estimated project cost is \$2,213,165.

The anticipated filing date of the application is on or before August 14, 2015. The contact person for this project is Michael D. Brent, Esq., who may be reached at Bradley Arant Boult Cummings LLP, 1600 Division Street, Suite 700, Nashville, Tennessee 37203. Mr. Brent's telephone number is (615) 252-2361 and his e-mail address is mbrent@babco.com.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency  
Andrew Jackson Building  
500 Deaderick Street, Suite 850  
Nashville, Tennessee 37243

Pursuant to T.C.A. § 68-11-1607(c)(1), (A) any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at, or prior to, the

this project will be a minimum of TBD. See <http://www.flynashville.com/business-diversity-development/Pages/default.aspx> for more information about this sc

Visit <http://www.flynashville.com/business-diversity-development/Pages/default.aspx> for more information about this sc

## Public Notices

## Pub

## REQUEST FOR QUALIFICATIONS

## THE METROPOLITAN NASHVILLE AIRPORT AUTHORITY

Statements of Qualifications from engineering firms with planning and engineering for the CIP 1614, LONG TERM PA project at the Nashville International Airport, Nash

ELECTRONIC STATEMENTS OF QUALIFICATIONS should be submitted by 5:00 p.m. (local time), September 24, 2015. A complete RFQ package may be downloaded from [www.aerobidz.com](http://www.aerobidz.com). A complete RFQ package may be downloaded from [www.aerobidz.com](http://www.aerobidz.com). Attendance at this meeting

A Pre-Proposal Meeting will be conducted at 1:00 p.m. (local time) on September 24, 2015, in the Nashville International Airport, Board Room, 4th Floor, Nashville, Tennessee. Attendance at this meeting

The Small, Minority and Women-owned business enterprises level established for the DESIGN portion of this project will be AND FIFTEEN HUNDREDTHS PERCENT (4.15%) MBE AND EIGHT PERCENT (8%) WBE. See <http://www.flynashville.com/business-diversity-development/Pages/default.aspx> for more information about this solicitation.

Visit <http://www.flynashville.com/business-diversity-development/Pages/default.aspx> for more information about this solicitation.

TN-0000071451

## Public Notices

## Pub

0000645174

NOTIFICATION OF INTENT TO APPLY FOR

**August 25, 2015**

**3:48 pm**

**Supplemental Attachment - Section B, Project Description, Item II.A**



**August 25, 2015****3:48 pm****Tennessee Secretary of State**

Tre Hargett

[BUSINESS SERVICES](#)[CHARITABLE](#)[ELECTIONS](#)[PUBLICATIONS](#)[LIBRARY & ARCHIVES](#)[CONTACT US](#)

Business Services Online &gt; Find and Update a Business Record &gt; Business Entity Detail

Online Payments will be unavailable due to maintenance on August 28, 2015 beginning at 9:00 PM CST through August 29th, 12:01 AM cst. We apologize for the inconvenience.

# Business Entity Detail

**Available  
Entity  
Actions**

[File Annual Report \(after 12/01/2015\)](#)[Certificate of Existence](#)... [More Business In Tennessee](#)

Entity details cannot be edited. This detail reflects the current state of the filing in the system.

[Return to the Business Information Search.](#)

000125457: For-profit Corporation - Domestic

[Printer Friendly Version](#)

Name: HOWELL ALLEN CLINIC A PROFESSIONAL CORPORATION

Old Name: NEUROLOGICAL SURGEONS, P.C.

Status: Active

Initial Filing Date: 02/22/1983

Formed In: TENNESSEE

Delayed Effective Date:

Fiscal Year Close: December

AR Due Date: 04/01/2016

Term of Duration: Perpetual

Inactive Date:

Principal Office: 2011 MURPHY AVE STE 301  
NASHVILLE, TN 37203-2023 USA

Mailing Address: 2011 MURPHY AVE STE 301  
NASHVILLE, TN 37203-2023 USA

AR Exempt: No

Obligated Member Entity: No

Shares of Stock: 10,000

[Assumed Names](#)[History](#)[Registered Agent](#)**Name**

NEUROLOGICAL SURGEONS, P.C.

NASHVILLE SPINE CENTER, P.C.

**Status**

Inactive - Name Cancelled

Inactive - Name Cancelled

**Expires**

02/25/2004

11/04/1996

Division of Business Services  
312 Rosa L. Parks Avenue, Snodgrass  
Tower, 6th Floor  
Nashville, TN 37243  
615-741-2286

[Email](#) | [Directions](#) | [Hours and Holidays](#) | [Methods of Payment](#)

Business Filings and Information (615) 741-2286 | [TNSOS.CORPINFO@tn.gov](mailto:TNSOS.CORPINFO@tn.gov)Certified Copies and Certificate of Existence (615) 741-6488 | [TNSOS.CERT@tn.gov](mailto:TNSOS.CERT@tn.gov)Motor Vehicle Temporary Liens (615) 741-0529 | [TNSOS.MVTL@tn.gov](mailto:TNSOS.MVTL@tn.gov)Uniform Commercial Code (UCC) (615) 741-3276 | [TNSOS.UCC@tn.gov](mailto:TNSOS.UCC@tn.gov)Workers' Compensation Exemption Registrations (615) 741-0526 | [TNSOS.WCER@tn.gov](mailto:TNSOS.WCER@tn.gov)Apostilles & Authentications (615) 741-0536 | [TNSOS.ATS@tn.gov](mailto:TNSOS.ATS@tn.gov)Summons (615) 741-1799 | [TNSOS.ATS@tn.gov](mailto:TNSOS.ATS@tn.gov)

**August 25, 2015****3:48 pm**

**Supplemental Attachment - Section B, Project Description, Item II.E - Purchase  
Option Agreement**

**August 25, 2015****3:48 pm****PURCHASE OPTION AGREEMENT**

THIS PURCHASE OPTION AGREEMENT (this "Agreement") is entered into as of August 12, 2015, by and between HOWELL ALLEN CLINIC, P.C., a Tennessee professional corporation ("HAC"), and SAINT THOMAS MEDICAL PARTNERS, a Tennessee nonprofit corporation ("STMP").

**RECITALS**

WHEREAS, HAC and STMP have entered into a Professional Services Agreement ("PSA") which contemplates STMP's acquisition of a GE Horizon short bore MRI (the "MRI") from HAC in connection with STMP's planned operation of an imaging center located at 2214 Elliston Place, Suite 200, Nashville, Tennessee; and

WHEREAS, in furtherance of the parties' obligations under the PSA and STMP's application for a Certificate of Need in connection with the MRI, STMP and HAC are entering into this Agreement under which HAC grants STMP an option to purchase the MRI on the terms set forth below.

**AGREEMENT**

NOW THEREFORE, in consideration of the foregoing premises and the promises and mutual covenants contained herein, and for other good and valuation consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **GRANT OF OPTION TO PURCHASE.** HAC hereby grants to STMP the irrevocable right at STMP's option (the "Purchase Option"), during the Option Period (as defined below) to purchase the MRI, free and clear of all security interests, liens, claims or encumbrances of any kind, in exchange for payment in cash of the Purchase Price (as defined below).
2. **OPTION PERIOD.** The "Option Period" shall commence on the date set forth above and continue through December 1, 2015.
3. **PURCHASE PRICE.** The total purchase price for the MRI shall be \$359,960 ("Purchase Price") and shall be paid in accordance with the terms of the Asset Purchase Agreement to be entered into by the parties.
4. **EXERCISE OF THE PURCHASE OPTION.** STMP shall provide written notice to HAC of its exercise of the Purchase Option on or before December 1, 2015.
5. **FURTHER ASSURANCES.** In the event of the exercise of the Purchase Option by STMP, the parties shall execute and deliver all such further documents and instruments and take all such further actions as may be necessary in order to consummate the transactions contemplated hereby.

**August 25, 2015****3:48 pm**

6. **NOTICES.** All notices, requests and other communications hereunder shall be in writing (and shall be deemed to have been duly received if so given) and given by hand delivery, by overnight courier or by registered or certified mail (postage prepaid, return receipt requested) at the addresses set forth below:

To STMP:

Saint Thomas Medical Partners  
Attn: Chief Executive Officer  
102 Woodmont Boulevard, Suite 800  
Nashville, TN 37205

With a copy to:  
Saint Thomas Health  
Attn: General Counsel  
102 Woodmont Boulevard, Suite 800  
Nashville, TN 37205

To HAC:  
Howell Allen Clinic, P.C.  
2011 Murphy Avenue, Suite 301  
Nashville, TN 37203  
Attn: President

7. **CHOICE OF LAW.** This Agreement shall be construed, and the rights and liabilities of the parties hereto determined, in accordance with the laws of the State of Tennessee.

8. **SUCCESSORS AND ASSIGNS.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the affiliates of STMP. Neither party may assign this Agreement with the prior written consent of the other party except that STMP may assign this Agreement to an affiliate.

9. **AMENDMENTS; WAIVERS.** This Agreement may not be amended, supplemented or otherwise modified except upon the execution and delivery of a written agreement by the parties. No waiver by either party of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party so waiving. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

10. **COUNTERPARTS.** This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

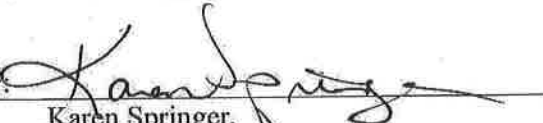
11. **HEADINGS.** The section headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

**August 25, 2015****3:48 pm**

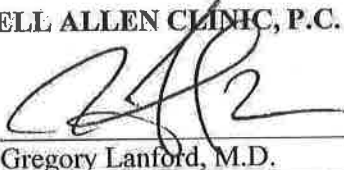
AUG 25/15 3:48 PM

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and year first above written.


**SAINT THOMAS MEDICAL PARTNERS**

By:   
Karen Springer,  
President and CEO, Saint Thomas Health  
Dated: 08-11-15

**HOWELL ALLEN CLINIC, P.C.**

By:   
Name: Gregory Lanford, M.D.  
Title: President  
Dated: 8/13/15

The undersigned signature is for internal approval purposes only.

  
Fahad Tahir, FACHE  
CEO, Saint Thomas Medical Partners

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

June 30, 2014

|  | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Reclassification | Consolidated<br>Arlington Heights | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|--|---------------------------|---|------------------|-----------------------------------|---------------------------|----------------------------|-----------------------|
| <b>Assets</b>  |                           |   |                  |                                   |                           |                            |                       |
| <b>Current assets:</b>   |                           |   |                  |                                   |                           |                            |                       |
| Cash and cash equivalents  | \$ 618,418                | \$ 351,470  | \$ —             | \$ 3,940                          | \$ 10,161                 | \$ 15,119                  | \$ 7,313              |
| Short-term investments   | 109,081                   | 51,860  | —                | 5,497                             | —                         | 29                         | 500                   |
| Accounts receivable, less allowances for<br>uncollectible accounts (\$1,260,407 in 2014) | 2,419,616                 | 1,165,698   | —                | 120,498                           | 57,963                    | 72,165                     | 46,071                |
| Inventories  | 332,739                   | 157,232   | —                | 16,787                            | 7,727                     | 12,067                     | 5,764                 |
| Due from brokers   | 343,757                   | 343,757   | —                | —                                 | —                         | —                          | —                     |
| Estimated third-party payor settlements  | 236,559                   | 150,491   | —                | 445                               | —                         | 5,166                      | 4,297                 |
| Other  | 562,367                   | 328,739   | —                | 12,235                            | 14,064                    | 12,297                     | 7,014                 |
| <b>Total current assets</b>  | <b>4,622,537</b>          | <b>2,549,247</b>  | <b>—</b>         | <b>159,402</b>                    | <b>89,915</b>             | <b>116,843</b>             | <b>70,959</b>         |
| Long-term investments  | 15,327,255                | 9,009,634   | 6,041,614        | 19,694                            | 16,877                    | 18,693                     | 844                   |
| Interest in investments held by<br>Ascension   | —                         | —   | (6,041,614)      | 369,491                           | 202,929                   | 195,012                    | 177,644               |
| Property and equipment, net  | 8,410,629                 | 4,076,941   | —                | 692,474                           | 230,893                   | 343,331                    | 153,306               |
| <b>Other assets:</b>   |                           |   |                  |                                   |                           |                            |                       |
| Investment in unconsolidated entities  | 649,888                   | 321,157   | —                | 5,163                             | 16,496                    | 9,609                      | 15,382                |
| Capitalized software costs, net  | 778,705                   | 504,301   | —                | 9,354                             | 2,184                     | 1,022                      | 12,740                |
| Other  | 1,509,849                 | 947,716   | —                | 18,163                            | 18,548                    | 12,989                     | 15,686                |
| <b>Total other assets</b>  | <b>2,938,442</b>          | <b>1,773,174</b>  | <b>—</b>         | <b>32,680</b>                     | <b>37,228</b>             | <b>23,620</b>              | <b>43,808</b>         |
| <b>Total assets</b>  | <b>\$ 31,298,863</b>      | <b>\$ 17,408,996</b>  | <b>\$ —</b>      | <b>\$ 1,273,741</b>               | <b>\$ 577,842</b>         | <b>\$ 697,499</b>          | <b>\$ 446,561</b>     |

**August 25, 2015****3:48 pm**

| Consolidated<br>Indiana | Consolidated<br>Kalamazoo | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|---------------------------|--------------------------------------|----------------------|---------------------------------|-------------------------|
| \$ 77,988<br>24,088     | \$ 9,502<br>-             | \$ 3,519<br>552          | \$ 2,973<br>-             | \$ 6,126<br>-          | \$ 19,242<br>86           | \$ 11,118<br>12,221                  | \$ 1,434<br>2,717    | \$ 14,740<br>-                  | \$ 83,773<br>11,531     |
| 371,346<br>46,718       | 68,915<br>7,899           | 25,177<br>3,247          | 87,669<br>11,453          | 31,049<br>5,708        | 142,291<br>18,863         | 34,001<br>6,615                      | 43,049<br>4,621      | 26,004<br>3,023                 | 127,720<br>25,015       |
| 18,433<br>64,905        | 8,752<br>10,022           | -<br>2,410               | 742<br>16,151             | -<br>7,662             | 13,615<br>27,322          | 5,634<br>12,027                      | 12,779<br>3,040      | 2,751<br>6,158                  | 13,454<br>38,321        |
| 603,478                 | 105,090                   | 34,905                   | 118,988                   | 50,545                 | 221,419                   | 81,616                               | 67,640               | 52,676                          | 299,814                 |
| 103,181                 | 24,353                    | 319                      | 18,480                    | 4,371                  | 46,681                    | 8,329                                | 530                  | 3,798                           | 9,857                   |
| 2,743,942               | 113,811                   | 69,863                   | 128,250                   | 180,136                | 675,612                   | 283,610                              | 173,750              | (4,050)                         | 731,614                 |
| 628,940                 | 179,507                   | 43,596                   | 612,917                   | 65,489                 | 470,030                   | 102,627                              | 99,028               | 59,678                          | 651,872                 |
| 82,229<br>72,537        | 16,199<br>720             | -<br>2,686               | 25,777<br>31,732          | 898<br>5,130           | 37,176<br>38,015          | 13,301<br>17,873                     | 11,333<br>2,832      | 3,071<br>13,842                 | 92,097<br>63,737        |
| 241,900                 | 14,579                    | 15,963                   | 31,164                    | 18,990                 | 53,226                    | 22,549                               | 12,447               | 19,729                          | 66,200                  |
| 396,666                 | 31,498                    | 18,649                   | 88,673                    | 25,018                 | 128,417                   | 53,723                               | 26,612               | 36,642                          | 222,034                 |
| \$ 4,476,207            | \$ 454,259                | \$ 167,332               | \$ 967,308                | \$ 325,559             | \$ 1,542,159              | \$ 529,905                           | \$ 367,560           | \$ 148,744                      | \$ 1,915,191            |

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

June 30, 2014

|   | Consolidated<br>Ascension | Consolidated Ascension<br>less Health Ministries<br>Presented | Consolidated<br>Arlington Heights | Consolidated<br>Baltimore | Consolidated<br>Birmingham | Consolidated<br>Flint |
|---|---------------------------|---|-----------------------------------|---------------------------|----------------------------|-----------------------|
| <b>Liabilities and net assets</b>                             |                           |   |                                   |                           |                            |                       |
| <b>Current liabilities:</b>                                   |                           |   |                                   |                           |                            |                       |
| Current portion of long-term debt                             | \$ 91,532                 | \$ 45,503   | \$ 4,916                          | \$ 1,120                  | \$ 1,656                   | \$ 4,162              |
| Long-term debt subject to short-term remarketing arrangements | 1,345,530                 | 1,345,530   | -                                 | -                         | -                          | -                     |
| Accounts payable and accrued liabilities                      | 2,293,663                 | 1,424,604   | 90,893                            | 45,091                    | 53,443                     | 45,326                |
| Estimated third-party payor settlements                       | 450,054                   | 199,336   | 80,106                            | 80                        | 27,284                     | 7,961                 |
| Due to brokers  | 332,169                   | 332,171   | -                                 | -                         | -                          | -                     |
| Current portion of self-insurance liabilities                 | 226,856                   | 179,459   | 5,466                             | 2,292                     | 1,139                      | 2,441                 |
| Other   | 274,645                   | 119,014   | 8,877                             | 10,650                    | 13,607                     | 2,399                 |
| <b>Total current liabilities</b>                              | <b>5,014,449</b>          | <b>3,645,617</b>  | <b>190,258</b>                    | <b>59,233</b>             | <b>97,129</b>              | <b>62,289</b>         |
| <b>Noncurrent liabilities:</b>                                |                           |   |                                   |                           |                            |                       |
| Long-term debt (senior and subordinated)                      | 4,994,913                 | 1,883,940   | 476,212                           | 77,150                    | 114,106                    | 286,710               |
| Self-insurance liabilities                                    | 541,859                   | 487,284   | 21,900                            | 2,182                     | 3,246                      | 3,035                 |
| Pension and other postretirement liabilities                  | 428,679                   | 272,905   | 14,296                            | -                         | 473                        | 35                    |
| Other   | 1,343,826                 | 960,998   | 57,173                            | 9,976                     | 67,130                     | 6,098                 |
| <b>Total noncurrent liabilities</b>                           | <b>7,309,277</b>          | <b>3,605,127</b>  | <b>569,581</b>                    | <b>89,308</b>             | <b>184,955</b>             | <b>295,878</b>        |
| <b>Total liabilities</b>                                      | <b>12,323,726</b>         | <b>7,250,744</b>  | <b>759,839</b>                    | <b>148,541</b>            | <b>282,084</b>             | <b>358,167</b>        |
| <b>Net assets:</b>  |                           |   |                                   |                           |                            |                       |
| <b>Unrestricted</b>   |                           |   |                                   |                           |                            |                       |
| Controlling interest  | 16,736,190                | 8,210,953   | 504,728                           | 421,417                   | 401,934                    | 84,594                |
| Noncontrolling interests                                      | 1,656,106                 | 1,568,493   | (507)                             | -                         | 1,158                      | -                     |
| <b>Unrestricted net assets</b>                                | <b>18,392,296</b>         | <b>9,779,446</b>  | <b>504,221</b>                    | <b>421,417</b>            | <b>403,092</b>             | <b>84,594</b>         |
| <b>Temporarily restricted</b>                                 | <b>391,226</b>            | <b>226,244</b>  | <b>8,979</b>                      | <b>7,419</b>              | <b>10,836</b>              | <b>3,254</b>          |
| <b>Permanently restricted</b>                                 | <b>191,615</b>            | <b>152,562</b>  | <b>702</b>                        | <b>465</b>                | <b>1,487</b>               | <b>546</b>            |
| <b>Total net assets</b>                                       | <b>18,975,137</b>         | <b>10,158,252</b>   | <b>513,902</b>                    | <b>429,301</b>            | <b>415,415</b>             | <b>88,394</b>         |
| <b>Total liabilities and net assets</b>                       | <b>\$ 31,298,863</b>      | <b>\$ 17,408,996</b>  | <b>\$ 1,273,741</b>               | <b>\$ 577,842</b>         | <b>\$ 697,499</b>          | <b>\$ 446,561</b>     |



**August 25, 2015****3:48 pm**

| Consolidated<br>Indiana | Consolidated<br>Kalamazoo | Consolidated<br>Lewiston | Consolidated<br>Milwaukee | Consolidated<br>Mobile | Consolidated<br>Nashville | Consolidated<br>Saginaw and<br>Tawas | Consolidated<br>Waco | Consolidated<br>Washington D.C. | Consolidated<br>Wichita |
|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|---------------------------|--------------------------------------|----------------------|---------------------------------|-------------------------|
| \$ 6,655                | \$ 2,341                  | \$ 378                   | \$ 4,531                  | \$ 1,004               | \$ 6,629                  | \$ 1,992                             | \$ 742               | \$ 906                          | \$ 8,997                |
| 199,375                 | 48,212                    | 10,409                   | 36,411                    | 16,191                 | 92,926                    | 26,072                               | 20,943               | 30,289                          | 153,478                 |
| 71,731                  | 12,350                    | 5,605                    | 433                       | 2,299                  | 16,713                    | 9,768                                | 1,202                | 9,993                           | 5,193                   |
| 8,893                   | 1,352                     | 480                      | 2,370                     | 493                    | (2)                       | 1,454                                | 595                  | 995                             | 9,309                   |
| 64,347                  | 434                       | 997                      | 12,035                    | 7,260                  | 20,968                    | 1,560                                | 7,159                | 2,022                           | 3,316                   |
| 351,001                 | 64,689                    | 17,869                   | 55,780                    | 27,247                 | 147,352                   | 40,846                               | 30,641               | 44,205                          | 180,293                 |
| 458,502                 | 161,280                   | 26,028                   | 312,163                   | 69,202                 | 401,397                   | 124,862                              | 51,093               | 62,439                          | 489,829                 |
| 81,706                  | 3,110                     | 144                      | 6                         | 1,627                  | 2,997                     | 1,703                                | 2,057                | 2,568                           | 10,000                  |
| 79,903                  | 47,431                    | 2,403                    | 22,591                    | 53                     | 6,219                     | 7,970                                | 5,561                | 6,850                           | 49,464                  |
| 620,111                 | 23,370                    | 2,403                    | 22,591                    | 11,896                 | 28,595                    | 134,535                              | 68,120               | 71,857                          | 549,293                 |
| 971,112                 | 235,191                   | 28,575                   | 334,760                   | 82,778                 | 439,208                   | 175,381                              | 98,761               | 116,062                         | 729,586                 |
| 3,380,925               | 148,782                   | 120,569                  | 558,288                   | 213,522                | 916,688                   | 345,694                              | 265,674              | 27,991                          | 1,134,431               |
| 47,716                  | 148,782                   | 120,569                  | 558,288                   | 213,522                | 7,379                     | 345,694                              | 265,674              | 27,991                          | 31,867                  |
| 3,428,641               | 148,782                   | 120,569                  | 558,288                   | 213,522                | 924,067                   | 345,694                              | 265,674              | 27,991                          | 1,166,298               |
| 57,415                  | 5,300                     | 319                      | 12,676                    | 2,012                  | 29,231                    | 8,159                                | 2,351                | 4,691                           | 12,340                  |
| 19,039                  | 297                       | -                        | 5,804                     | -                      | 2,301                     | 671                                  | 774                  | -                               | 6,967                   |
| 3,505,095               | 154,379                   | 120,888                  | 576,768                   | 215,534                | 955,599                   | 354,524                              | 268,799              | 32,682                          | 1,185,605               |
| \$ 4,476,207            | \$ 454,259                | \$ 167,332               | \$ 967,308                | \$ 325,559             | \$ 1,542,159              | \$ 529,905                           | \$ 367,560           | \$ 148,744                      | \$ 1,915,191            |

**SUPPLEMENTAL**  
**#2**



**August 31, 2015**

**9:48 am**

August 31, 2015

Michel D. Brent, Attorney  
Bradley Arant Boult Cummings, LLC  
1600 Division Street, Suite 700  
Nashville, TN 37203

RE: Certificate of Need Application Saint Thomas Medical Partners d/b/a Saint Thomas Medical Partners-Neurosurgery-Imaging Center, CN1508-033

Acquisition of MRI and Initiation of MRI Service

Dear Mr. Brent,

This will acknowledge our August 26, 2015 receipt of your 8/25/15 supplemental response regarding your **Consent Calendar Request** for a Certificate of Need to acquire the existing MRI unit approved in Neurological Surgeons, P.C, CN9902-013AM and initiate MRI services under the ownership and management of Saint Thomas Partners, a wholly owned affiliate of the Saint Thomas Health Network, at 2214 Elliston Place, Suite 200, Nashville (Davidson County), Tennessee.

Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 10 AM, August 31, 2015. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

---

*Note: for ease of reference, the additional clarification is formatted to the original HSDA questionnaire sent by e-mail on 8/19/15 with responses returned by the applicant to HSDA on 8/25/15 (Supplemental 1). Questions from supplemental 1 are noted in italic font.*

**4. Section B, Applicant Profile, Item 13 and Section C, Economic Feasibility, Item 6.B**

*Supplemental 1 - Will professional fees for MRI interpretation services by licensed radiologists be reimbursed by the applicant? If the radiologists will be billing separately using their own provider certification/registration numbers, what assurances apply such that the radiologists will hold Medicare and Medicaid provider certification and will be contracted with the same TennCare MCO plans as the applicant? Please briefly discuss the arrangements planned in this regard.*

**August 31, 2015**

**9:48 am**

Supplemental 2 - Please also confirm that the radiologists providing imaging interpretation services participate in the TennCare MCO plans with which the applicant is contracted.

RESPONSE: All radiologists providing imaging interpretation services participate in the TennCare MCO plans with which the applicant is contracted:

**5. Section B, Project Description, Item II.A.**

*Supplemental 1 - Please expand the executive summary by identifying counties included in the primary service area (PSA) proposed for this project. In your response, please briefly address any key differences from the PSA approved in CN9902-013.*

*Supplemental 1 - In terms of background, the applicant states that the MRI unit approved in CN9902-013 will be purchased as part of the acquisition of the physician practice and will continue to be used for the patients of the practice. However, it appears that referrals for MRI studies are not limited exclusively to patients of the practice. Rather, referrals by other physicians affiliated with the Saint Thomas Network will occur as well as referrals from non-affiliated physicians in the applicant's service area. Please clarify.*

Supplemental 2 -The clarification provided indicates that the primary service area (PSA) is the same or substantially similar to CN9902-013A. Please revise the service area map attached with the original application to show all the counties in the PSA.

Supplemental 2 - With the expanded PSA, it appears that the practice would receive referrals for MRI studies of patients referred by physicians who are not affiliated with the practice, unless Saint Thomas Partners has a large referral coordination system in place with member physicians that practice in the outlying counties. Please briefly describe the referral coordination process that would apply to use of the medical practice's MRI service by patients of physicians that are not affiliated with the Saint Thomas Partners network.

RESPONSE: Please see the attached revised service area map. As to the referrals, there will be no MRI studies at the 2214 Elliston Place facility except for patients of physicians who are a part of the neurosurgery practice. Additionally, the applicant has the ability with its scheduling system (through the use of software commonly known as "Athena"), to assure that patients who might receive an MRI study at the 2214 Elliston Place facility are only patients of physician affiliated with the neurosurgery practice. Patients of other physicians (whether within the broader Saint Thomas Medical Partners group (but who are not affiliated with the neurosurgery practice) or who are outside the Saint Thomas Medical Partners group) in need of a MRI study will have those studies performed at other MRI facilities (within or outside of the Saint Thomas network)."

**9. Section C, Need. Item 5 (Historical Utilization in PSA)**

*Supplemental 1 - The table is noted. However, HSDA Equipment Registry now has data for MRI utilization in 2014, including utilization by residents of Davidson County in 2014. Please revise the table by using the format illustrated in the table below.*

*Utilization of Existing MRI Providers in Davidson County, 2012-2014*

| <i>Provider Name</i>    | <i>Type (PO, ODC, Hospital)</i> | <i>Current # units (specify if mobile)</i> | <i>Distance from Applicant (miles)</i> | 2012 | 2013 | 2014 | % Change '12-'14 | <i>Use by County Residents in 2014</i> |
|-------------------------|---------------------------------|--|--|------|------|------|------------------|--|
| <i>Provider 1</i>       |                                 |  |  |      |      |      |                  |  |
| <i>Provider 2, etc.</i> |                                 |  |  |      |      |      |                  |  |
| <b>Total</b>            |                                 |  |  |      |      |      |                  |  |

Supplemental 2 – the table above showing the inventory of existing MRI units in Davidson County was completed as requested. However, HSDA will need a snapshot of the MRI inventory of all counties included in the primary service area (PSA) as clarified in your August 25, 2015 supplemental response, including Davidson, Cheatham, Robertson, Rutherford, Sumner, Williamson and Wilson Counties. The inventory can be provided in condensed form in the revised table below showing the combined totals for each county for the following information: number of fixed and mobile units by type provider (hospital, ODC, private office or HOPD); and, total combined MRI utilization by county from 2012-2014. *Note: please contact Alecia Craighead, Stat III at 615-253-2782 for assistance with the requested data from the HSDA Equipment Registry.*

**Utilization of Existing MRI Providers in PSA, 2012-2014**

| <b>County</b> | <b>Type (PO, ODC, Hospital, HOPD)</b> | <b>Current units (fixed)</b> | <b>Current Units (mobile)</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>% Change '12-'14</b> |
|---------------|---------------------------------------|------------------------------|-------------------------------|-------------|-------------|-------------|-------------------------|
| Davidson      |                                       |                              |                               |             |             |             |                         |
| Cheatham      |                                       |                              |                               |             |             |             |                         |
| Robertson     |                                       |                              |                               |             |             |             |                         |
| Rutherford    |                                       |                              |                               |             |             |             |                         |
| Sumner        |                                       |                              |                               |             |             |             |                         |
| Williamson    |                                       |                              |                               |             |             |             |                         |
| Wilson        |                                       |                              |                               |             |             |             |                         |
| <b>Total</b>  |                                       |                              |                               |             |             |             |                         |

**RESPONSE:** Please see the chart below:

**Utilization of Existing MRI Providers in PSA, 2012-2014**

| County       | Type<br>(PO,<br>ODC,<br>Hospital,<br>HOPD) | Current<br>units<br>(fixed) | Current<br>Units<br>(mobile<br>) | 2012           | 2013           | 2014           | %<br>Change<br>'12-'14 | MRI Utilization by County<br>2012-2014 |                |                |
|--------------|--|-----------------------------|----------------------------------|----------------|----------------|----------------|------------------------|--|----------------|----------------|
|              |  |                             |                                  |                |                |                |                        | 2012                                   | 2013           | 2014           |
| Davidson     | Hosp.                                      | 23                          | 0                                | 63,163         | 63,829         | 61,939         | -1.94%                 | 130,843                                | 130,611        | 134,373        |
|              | ODC  | 19**                        | 0                                | 43,257         | 41,061         | 45,272         | 4.66%                  |  |                |                |
|              | PO   | 10**                        | 0                                | 21,826         | 22,790         | 24,335         | 11.5%                  |  |                |                |
|              | HODC                                       | 1*                          | 0                                | 1,918          | 2,249          | 2,099          | 9.44%                  |  |                |                |
|              | H-<br>Imaging                              | 1                           | 0                                | 679            | 682            | 728            | 7.22%                  |  |                |                |
| Cheatham     | Hosp.                                      | 0                           | 1 (2<br>days/<br>week)           | 375            | 303            | 298            | 20.53%                 | 375                                    | 303            | 298            |
| Robertson    | Hosp.                                      | 1                           | 0                                | 2,780          | 3,232          | 3,407          | 22.55%                 | 2,780                                  | 3,232          | 3,407          |
| Rutherford   | Hosp.                                      | 3                           | 0                                | 4,507          | 4,333          | 4,503          | -.0009%                | 20,118                                 | 22,863         | 25,300         |
|              | ODC  | 4                           | 0                                | 9,302          | 12,388         | 13,925         | 17.75%                 |  |                |                |
|              | PO   | 2                           | 0                                | 6,309          | 6,142          | 6,872          | 8.92%                  |  |                |                |
| Sumner       | H-<br>Imaging                              | 1                           | 1 (1<br>day/<br>week)            | 1,954          | 2,237          | 2,418          | 23.75%                 | 9,748                                  | 10,259         | 10,512         |
|              | HODC                                       | 1                           | 0                                | 2,116          | 1,670          | 1,669          | 21.12%                 |  |                |                |
|              | Hosp.                                      | 2                           | 0                                | 4,958          | 5,629          | 5,787          | 16.72%                 |  |                |                |
|              | PO   | 1                           | 0                                | 720            | 723            | 638            | -.11%                  |  |                |                |
| Williamson   | Hospital                                   | 1                           | 0                                | 3,654          | 4,103          | 4,119          | 12.73%                 | 14,373                                 | 14,549         | 14,008         |
|              | Outpatient<br>Diagnostic<br>Center         | 3                           | 0                                | 7,991          | 7,703          | 8,012          | .3%                    |  |                |                |
|              | Physician<br>Office                        | 1                           | 0                                | 2,728          | 2,743          | 1,877          | -31%                   |  |                |                |
| Wilson       | Hospital                                   | 1                           | 0                                | 3,000          | 2,213          | 2,472          | 17.6%                  | 7,881                                  | 7,772          | 8,073          |
|              | Outpatient<br>Diagnostic<br>Center         | 1                           | 0                                | 2,559          | 2,562          | 3,191          | 24.7%                  |  |                |                |
|              | Physician<br>Office                        | 3                           | 0                                | 2,322          | 2,997          | 2,410          | 3.79%                  |  |                |                |
| <b>Total</b> |  | <b>79</b>                   | <b>2</b>                         | <b>186,118</b> | <b>189,589</b> | <b>195,971</b> | <b>5.29%</b>           | <b>186,118</b>                         | <b>189,589</b> | <b>195,971</b> |

\*Shared

\*\*Includes Shared Davidson PO: 1 with ODC, 1 with HODC; ODC: 1 with an PO

**10. Item 6 (Applicant's Projected Utilization)**

**SUPPLEMENTAL #2****August 31, 2015****9:48 am**

Mr. Michael Brent

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Supplemental 1 - The projected utilization is noted. It would help to have an appreciation of utilization resulting from referrals by physicians in Year 1 - both physician members of the practice and physicians of other practices located in the primary service area (PSA). Please clarify.

In your response, please complete the table below.

**Applicant's Projected MRI Volumes by Physician Specialty**

| <b>Primary Specialty</b> | <b>MRI procedures as a result of referrals by MD Practice members</b> | <b>MRI Procedures As a result of other Physicians in PSA</b> | <b>Total MRI Procedures Year 1</b> |
|--------------------------|---|--|------------------------------------|
| Family Practice          |   |  |                                    |
| Internal Medicine        |   |  |                                    |
| Orthopedics              |   |  |                                    |
| Radiology                |   |  |                                    |
| Neurology                |   |  |                                    |
| Neurosurgery             |   |  |                                    |
| Other _____              |   |  |                                    |
| <b>TOTAL</b>             |   |  |                                    |

Supplemental 2 - the applicant states that there are no physicians who refer patients to the clinic from other practices. Based on the expanded service area confirmed in your August 25, 2015 supplemental response, please provide an estimate of referrals to help support the projected utilization of the MRI service area by completing the revised table below:

**Physician MRI Referrals in PSA, Year 1**

| <b>Primary Specialty</b> | <b>Year 1 MRI procedures as a result of referrals by non-affiliated physicians in PSA</b> |
|--------------------------|---|
| Family Practice          |   |
| Internal Medicine        |   |
| Orthopedics              |   |
| Radiology                |   |
| Neurology                |   |
| Neurosurgery             |   |
| Other _____              |   |
| <b>TOTAL</b>             |   |

RESPONSE: There will be no MRI studies at the 2214 Elliston Place facility except for patients of physicians who are a part of the neurosurgery practice. The neurosurgery practice has been the sole source of referrals to this MRI since it was first approved, and as noted elsewhere, the

**August 31, 2015**

**9:48 am**

volume of studies performed in recent years at the 2214 Elliston Place facility have well exceeded the amount set forth in the Guidelines. Given that only neurosurgeons affiliated with the applicant will utilize the MRI, and the other categories noted in the draft chart do not apply to the group of neurosurgeons, the applicant does believe the chart is necessary.

**12. Section C, Economic Feasibility, Item 4. (Historical and Projected Data Charts)**

*Supplemental 1 - Both Charts - Please provide a detail or breakout of "Other Expenses", such as annual costs related to the MRI service agreement and fees to radiologists for imaging interpretation services.*

*Supplemental 1 - Please provide a revised breakout of the base salary and full time equivalent positions by classification used to determine Salaries and Wages in Line D. 1 of the chart.*

*Supplemental 1 - The amount for the applicant's annual lease cost, prorated for the space used by the MRI service is missing from the chart. Please clarify.*

**Supplemental 2 - Projected Data Chart**

Other Expenses (Line D.9) - The breakout is noted. The applicant notes that the total amount shown for 2016 and 2017 differ from the amounts shown in the Line D.9 of the Projected Data Chart submitted in the application. The revised amounts will need to be shown in a revised Projected Data Chart for the MRI service.

Salaries and Wages (Line D.1) - the amounts shown in the table total to \$195,000 in lieu of \$381,000 shown in line D.1 of the Projected Data Chart. Please clarify. If in error, the revised amount will need to be shown in a revised Projected Data Chart.

Rent (Line D.6) - the annual allocable lease costs are noted. The amounts will need to be shown in a revised Projected Data Chart.

The changes to the expense categories noted above will impact the Net Operating Income of the MRI service in Years 1 and 2 of the project. Please make all the necessary corrections to the items noted above and submit a revised Projected Data Chart for the MRI service.

RESPONSE: A revised chart is attached.

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." For this application the sixtieth (60<sup>th</sup>) day after written



Mr. Michael Brent  
August 31, 2015  
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**SUPPLEMENTAL #2**

**August 31, 2015**

**9:48 am**

notification is October 20, 2015. If this application is not deemed complete by this date, the application will be deemed void. Agency Rule 0720-10-.03(4) (d) (2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Re-submittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

Jeff Grimm  
Health Examiner  
Tennessee Health Services & Development Agency

**August 31, 2015****9:48 am****AFFIDAVIT**

STATE OF TENNESSEE

COUNTY OF DAVIDSON

NAME OF FACILITY: \_\_\_\_\_

Saint Thomas Medical Partners D/B/A  
Saint Thomas Medical Partners Neurosurgery Imaging Center

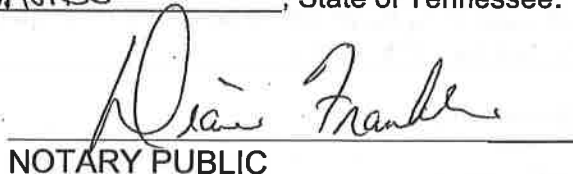
I, Fahad Tahir, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.



CEO

Signature/Title

Sworn to and subscribed before me, a Notary Public, this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, witness my hand at office in the County of DAVIDSON, State of Tennessee.

  
NOTARY PUBLICMy commission expires January 9, 2018

HF-0043

Revised 7/02





**State of Tennessee**  
**Health Services and Development Agency**

Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

[www.tn.gov/hsda](http://www.tn.gov/hsda)

Phone: 615-741-2364

Fax: 615-741-9884

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**LETTER OF INTENT**

The Publication of Intent is to be published in Tennessean, which is a newspaper of general circulation in Davidson County, Tennessee, on or before August 10, 2015, for one day.

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that Saint Thomas Medical Partners (a Tennessee nonprofit corporation wholly owned by Saint Thomas Network, which is a Tennessee nonprofit corporation wholly owned by Saint Thomas Health, a Tennessee nonprofit corporation), intends to file an application for a Certificate of Need for the acquisition of an MRI and initiation of MRI services, to be owned and managed by the applicant. The MRI service is currently provided in a physician practice located at 2214 Elliston Place, Suite 200, in Nashville, Tennessee, 37203. The existing equipment, a GE Horizon short bore MRI with magnet strength of 1.5 Tesla, will be purchased as part of the acquisition of the physician practice and the MRI will continue to be used for the patients of the practice. The estimated project cost is \$2,213,165.

The anticipated filing date of the application is on or before August 14, 2015. The contact person for this project is Michael D. Brent, Esq., who may be reached at Bradley Arant Boult Cummings LLP, 1600 Division Street, Suite 700, Nashville, Tennessee 37203. Mr. Brent's telephone number is (615) 252-2361 and his e-mail address is [mbrent@babbc.com](mailto:mbrent@babbc.com).

(Signature)

(Date)

[mbrent@babbc.com](mailto:mbrent@babbc.com)

(E-mail Address)

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The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, Tennessee 37243

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

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**CERTIFICATE OF NEED  
REVIEWED BY THE DEPARTMENT OF HEALTH  
DIVISION OF POLICY, PLANNING AND ASSESSMENT  
615-741-1954**

**DATE:** October 30, 2015

**APPLICANT:** Saint Thomas Medical Partners  
2214 Elliston Place, Suite 200  
Nashville, Tennessee 37203

CN1508-033

**CONTACT PERSON:** Michael D. Brent  
1600 Division Street, Suite 700  
Nashville, Tennessee 37203

**COST:** \$2,213,165.44

---

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

**SUMMARY:**

Saint Thomas Medical Partners, located at 2214 Elliston Place, Nashville (Davidson County), Tennessee 37203, seeks Certificate of Need (CON) approval for the acquisition of a MRI and initiation of MRI services to be owned and managed by the applicant. The MRI is a GE Horizon short bore MRI with a 1.5 Tesla magnet and will be purchased as part of a physician practice. The MRI will continue to be used for the patients in that practice.

Saint Thomas Medical Partners is a wholly owned subsidiary of Saint Thomas Network. The applicant owns and operates a multi-specialty medical practice with approximately 375 physicians and providers and practice location throughout Middle Tennessee and Southern Kentucky. The service is currently provided R 2214 Elliston Place, Suite 200. The existing MRI was approved for practice by CN9902-013. The MRI will be wholly owned and operated by the applicant with professionals and technical personnel provided by the applicant.

The total estimated project cost is \$2,213,165.44 and will be funded through cash reserves as documented in a letter from the Chief Financial Officer in Attachment C. Economic Feasibility-2.

This application has been placed on the Consent Calendar. Tenn. Code Ann. § 68-11-1608 Section (d) states the executive director of Health Services and Development Agency may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

**GENERAL CRITERIA FOR CERTIFICATE OF NEED**

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

**NEED:**

The applicant's primary and secondary service area population is provided below.

**Service Area Total Population 2015 and 2019**

| <b>County</b> | <b>2015<br/>Population</b> | <b>2019<br/>Population</b> | <b>% of Increase/<br/>(Decrease)</b> |
|---------------|----------------------------|----------------------------|--------------------------------------|
| Cheatham      | 40,546                     | 41,481                     | 2.3%                                 |
| Davidson      | 671,403                    | 706,549                    | 5.2%                                 |
| Robertson     | 72,563                     | 77,441                     | 6.7%                                 |
| Rutherford    | 309,088                    | 314,767                    | 12.5%                                |
| Sumner        | 175,794                    | 187,398                    | 6.6%                                 |
| Williamson    | 210,823                    | 230,224                    | 9.2%                                 |
| Wilson        | 126,659                    | 136,217                    | 7.5%                                 |
| <b>Total</b>  | <b>1,606,876</b>           | <b>1,694,077</b>           | <b>5.4%</b>                          |

*Tennessee Department of Health, Division of Policy, Planning, and Assessment, 2020, Tennessee Population Projections 2000-2020, Revision June 2015.*

The MRI in this application is an existing MRI (CN9902-013) that is part of a physician practice that is being acquired. The project does not require construction or renovation and will extend the off-site capabilities of the applicant. Davidson county residents account for 27.56% of the MRI units procedures performed in 2014. The surrounding counties of Rutherford, Wilson, Sumner, and Williamson Montgomery, Dickson, and Maury, and other Tennessee counties account for the rest.

This is an existing MRI and will not add another MRI to the service area. The applicant will not hire staff in addition to those currently in the physician practice.

The applicant's three year utilization is provided below.

**Saint Thomas f/k/a Howell–Allen Clinic, P.C. MRI Equipment Utilization**

| <b>Facility</b>               | <b>2012</b> | <b>2013</b> | <b>2014</b> |
|-------------------------------|-------------|-------------|-------------|
| Saint Thomas Medical Partners | 4,305       | 4,891       | 5,012       |

*HSDA Equipment Registry*

Saint Thomas Medical Partners projects 4,104 procedures in years one and two of the project.

Saint Thomas Medical Partners provided utilization for all providers in their designated service area in Supplemental 2. There are 79 MRIs (two are part-time) in the service area that averaged 1,548 procedures per unit.

**TENNCARE/MEDICARE ACCESS:**

The applicant participates in the Medicare and Medicaid programs. The applicant's Medicare revenues for year one are projected to \$2,342,410 or 32.83% of gross revenues and TennCare revenues of \$114,150 or 1.60% of total gross revenues.

**ECONOMIC FACTORS/FINANCIAL FEASIBILITY:**

The Department of Health, Division of Policy, Planning, and Assessment have reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine if they are mathematically accurate and if the projections are based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

**Project Costs Chart:** The Project Cost Chart is located on page 37 of the application. The total project cost is \$2,213,165.44.

**Historical Data Chart:** The Historical Data Chart is located in the application. The applicant reported 4,104, 3,906, and 4,258 procedures in 2014, 2013, and 2012 with net operating income of \$822,526, \$923,705, and \$1,005,494 each year, respectively.

**Projected Data Chart:** The Projected Data Chart is located in Attachment 2. The applicant projects 4,104 and 4,104 procedures with net operating revenues of \$1,191,623 and \$1,277,373 each year, respectively.

The following chart contains the applicant's Historical and Projected Charges

| Payor Source | Current Charges | Year 1 Charges | Yea Two Charges |
|--------------|-----------------|----------------|-----------------|
| Medicare     | \$1,687.90      | \$1,738.54     | \$1,790.70      |
| TennCare     | \$1,687.90      | \$1,738.54     | \$1,790.70      |
| Private Pay  | \$1,687.90      | \$1,738.54     | \$1,790.70      |

|              | 2014       | Year 1     | Year 2     |
|--------------|------------|------------|------------|
| Private Pay  | \$1,687.90 | \$1,758.54 | \$1,790.70 |
| Medicare     | \$1,687.90 | \$1,156.31 | \$1,191.00 |
| Managed Care | \$1,687.90 | \$582.22   | \$599.69   |

#### **CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:**

Saint Thomas Medical Partners is wholly owned by Saint Thomas Network. The applicant provides an organizational chart on page 12 of the application and Attachment A.13.

This project will have a positive effect on the system and will help ensure facilities in the county are providing patient care at competitive prices.

The projected staffing for the project includes 3.0 FTE MRI technologists.

The applicant has no formal agreements for training but the Saint Thomas Network has numerous relationships with schools throughout Middle Tennessee.

The applicant is familiar with all licensure requirements and relevant regulatory agencies and Medicare/Medicaid requirements. The applicant is certified by the American College of Radiology.

#### **SPECIFIC CRITERIA FOR CERTIFICATE OF NEED**

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

#### **Magnetic Resonance Imaging Standards and Criteria**

1. Utilization Standards for non-Specialty MRI Units.
  - a. An applicant proposing a new non-Specialty stationary MRI unit should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2800 procedures per year by the third year of service and for every year thereafter.

*The fixed unit currently performs over 2,800 procedures and has so over the last three years.*

### Saint Thomas f/k/a Howell–Allen Clinic, P.C. MRI Equipment Utilization

| Facility                      | 2012  | 2013  | 2014  |
|-------------------------------|-------|-------|-------|
| Saint Thomas Medical Partners | 4,305 | 4,891 | 5,012 |

*HSDA Equipment Registry*

- b. Providers proposing a new non-Specialty mobile MRI unit should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

*Not applicable*

An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

- c. Mobile MRI units shall not be subject to the need standard in paragraph 1b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's geographical area are not adequate and/or that there are special circumstances that require these additional services.

*Not applicable*

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the service area's population. Applications that include non-Tennessee counties in their proposed service areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

*The applicant complies.*

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

*Not applicable*

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 6 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

*The fixed unit currently performs over 2,800 procedures and has so over the last three years.*

5. Need Standards for Specialty MRI Units.

- a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to acquire a dedicated fixed or mobile breast MRI unit shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:

1. It has an existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MRI unit equipment, and that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;

*Not applicable.*

2. Its existing mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit is in compliance with the federal Mammography Quality Standards Act;

*Not applicable.*

3. It is part of an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is based in the proposed service area.

It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, and primary care providers.

*Not applicable.*

- b. Dedicated fixed or mobile Extremity MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity.

*Not applicable*



- c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity.

*Not applicable*

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

*Not applicable*

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

- a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

*The proposed MRI unit has been approved for use by the FDA.*

- b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

*The applicant complies.*

- c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

*The applicant complies.*

- d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

*The applicant complies.*

- e. An applicant proposing to acquire any MRI Unit, including Dedicated Breast and Extremity MRI Units, shall demonstrate that:

All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

*The applicant complies.*

- f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

*The applicant is part of The Saint Thomas Network and has an agreement with it.*

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

*The applicant agrees.*

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

- a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

*Not applicable*

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

*Not applicable*

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

*The applicant complies.*